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EUROPE'S BUSINESS NEWSPAPER

FINANCIAL TIMES

Monday September 10 1990

SOUTH AFRICA

After apartheid comes the hard part

Page 14

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Belgium	100.00	100.00	100.00	100.00
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Italy	100.00	100.00	100.00	100.00
Japan	100.00	100.00	100.00	100.00
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Portugal	100.00	100.00	100.00	100.00
Spain	100.00	100.00	100.00	100.00
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UK	100.00	100.00	100.00	100.00
US	100.00	100.00	100.00	100.00

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World News Business Summary

UN peace plan for Cambodia gets backing of all parties

Talks aimed at a settlement in Cambodia opened in Jakarta with a commitment from all warring parties to support a United Nations peace plan. The plan, drawn up by the five permanent members of the UN Security Council, involves a ceasefire and establishment of a Supreme National Council to govern the country in the run-up to elections. Page 3

Soviet reforms delay

Soviet President Mikhail Gorbachev is expected to postpone presenting an economic reform plan to parliament until mid-week, reflecting continuing deep divisions between conservative Prime Minister Nikolai Ryzhkov and radicals advising both Mr Gorbachev and Russian Federation President Boris Yeltsin. Page 16

German UN move

Proposed change in the German constitution to allow participation in United Nations peace-keeping activities underlines a united Germany's new world responsibilities, Chancellor Helmut Kohl said. Page 2

Shutout poll bid

Benazir Bhutto, Pakistan's ousted Prime Minister, is to stand in elections in her home province of Sindh, despite political trials by the military-backed caretaker government. Page 3

Romanians protest

Three thousand Romanian workers and intellectuals staged a joint demonstration in Brasov to protest at government failure to solve the country's grave economic problems. Page 4

Mandela in Zaire

Nelson Mandela arrived in Zaire for his first meeting with President Mobutu Sese Seko, national radio reported. Meanwhile, at least 26 people died in attacks in the black South African township of Soweto. Page 4

Burma troop alert

Burmese troops living off base in Rangoon have been warned by their commander to be on their guard ahead of the second anniversary of the military's bloody suppression of pro-democracy protests. Page 4

Lebanon deaths

Three people were killed and 20 wounded as at least 5,000 families fled Sidon, south Lebanon, after fighting loyal to FLO leader Yasser Arafat and gunmen of Abu Nidal's radical Fatah Revolutionary Council exchanged rockets and mortar fire, security sources said. Page 4

Task force attacked

Liberian rebel leader Charles Taylor launched an attack on the five-nation West African task force in the capital, Monrovia. The West African troops held off the rebels. Page 4

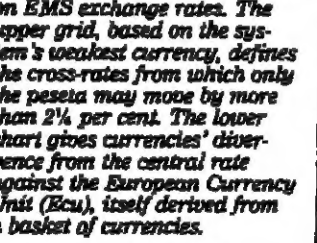
Congressmen aim to set deadline for budget cuts

US congressmen will meet at the White House today to agree a deadline for final accord on reduction of the 1991 budget deficit by \$50bn. Page 18

EUROPEAN Monetary System

The Italian lira lost ground last week, falling below the Belgian franc despite a small cut in official interest rates in Brussels. At the top of the system the Spanish peseta tended to weaken. Trading was generally subdued, lacking fresh factors. Page 18

EMS September 7, 1990



The chart shows the constraints on EMS exchange rates. The upper grid, based on the system's weakest currency, defines the cross-rates from which only the peseta may move by more than 2% per cent. The lower chart gives currencies' divergence from the central rate against the European Currency Unit (ECU), itself derived from a basket of currencies. Page 18

RMC Group of the UK

is negotiating to acquire East German Ruderstorf cement group which owns large works near Berlin. Page 17

EUROPE's computer users

aim to influence draft European Commission directive on computer software. Page 4

HOARE GOVETT, City of London stockbroker,

is to announce a management buy-out. Page 17

WORLD Bank has reproached Hungary for hesitancy in restructuring national economy.

Page 4

EUROPEAN Film: production and distribution companies from five European countries are to form new company, Eurotrust, to challenge US dominance.

Page 17

Gorbachev wins pledge from Bush to renew search for peaceful solution to Gulf crisis

Superpowers condemn Iraq

By Quentin Peel in Helsinki

THE US and the Soviet Union yesterday united at their summit meeting in condemning Iraq for its invasion of Kuwait and demanding its unconditional withdrawal. After seven hours of talks in Helsinki, Presidents George Bush and Mikhail Gorbachev pledged their complete solidarity in the campaign to enforce United Nations sanctions against the Iraqi regime. However, they stopped short of spelling out any further measures they might take to end the Iraqi aggression.

Instead, Mr Gorbachev won a renewed emphasis on the need to search for a peaceful solution, and a statement from Mr Bush that "the sooner [US troops] are out of there, the better."

He also won tacit US recognition of the benefit of a Soviet role in the Middle East peace process, and a commitment that, as soon as the UN Security Council resolutions on Kuwait had been enforced, both sides would put renewed efforts into resolving "all remaining conflicts in the Middle East and Persian Gulf."

"Today, we once again call upon the Government of Iraq to withdraw unconditionally from Kuwait, to allow the restoration of Kuwait's legitimate government, and to free all hostages now held in Iraq and Kuwait," the two leaders said in a joint statement.

"Nothing short of the complete implementation of the UN Security Council resolutions is acceptable."

In spite of the absence of any new concrete measures to step up the pressure on President Saddam Hussein, both sides seemed satisfied that their emergency summit marked a new departure in superpower solidarity to enforce international peace.

"This is a test of the durability of the new approach to resolving world problems," President Gorbachev said. Both sides recognised "that the



Together: Presidents Mikhail Gorbachev (left) and George Bush before yesterday's superpower summit in Helsinki. They united to condemn Iraq's invasion of Kuwait.

Higher oil prices may unleash a worldwide upsurge in oil exploration, according to Sir Peter Holmes, chairman of Shell Transport and Trading. Shell, one of the world's two largest oil companies, believes much of this increased exploration will occur in the US, because of its favourable tax regime. He said that \$25 a barrel was the appropriate price for oil following the loss of just over 4m barrels a day (b/d) from Iraq and Kuwait. Page 2

whole of world society, and our two great states, are undergoing a trial. "As we enter upon a new peaceful period, and emerge from the Cold War, we see that no less efforts are necessary in order to find ways and means to meet the new situation, and

tackle all the problems which arise." Although the emergency summit concentrated above all on the Gulf crisis, Mr Bush confirmed that they had also discussed the growing plight of the Soviet economy.

"We should be as forthcoming as we possibly can in the realm of economics," he said, adding that he would recommend closer co-operation to Congress on his return. However, the Soviet leader clearly bristled at the suggestion that his political support might be bought. "I wouldn't

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Shoulder to shoulder in pursuit of peace

IT WAS as if they had been doing it all their lives: calling emergency superpower summits to stand shoulder to shoulder in the pursuit of peace, not war, writes Quentin Peel.

Everything went like clockwork, everyone spoke the right lines and there was a good deal of good humour, in spite of the underlying grimness of the confrontation in the Gulf.

The George and Mikhail Show is the new reality, with George mangling his metaphors ("differences still remain, but the common ground...surges ahead of these differences") and Mikhail, tending to ramble on a bit. But they are well on the way to making a battle-hardened double-act.

Nato chief calls for strategy to operate outside Europe and US

By David White, Defence Correspondent in London

THE Nato alliance should review its treaty to enable it to respond to emergencies such as the Gulf crisis, according to General John Galvin, the supreme Allied commander in Europe.

Gen Galvin said in an interview with the Financial Times that future Nato strategy needed to take account of "crisis management" as well as war planning.

"The structure, the machinery for meeting a crisis, will have to be re-examined and strengthened," he said. The 1949 North Atlantic Treaty provides for a joint response to an armed attack against any of the allies' territory in Europe, North America, the northern Atlantic or the Asian part of Turkey. The limits on its scope largely reflected US concern at that time not to become embroiled in European colonial conflicts.

"I think we'll have to go back and look at that again," Gen Galvin said. Nato would have to take a "more all-en-

compassing view of things" to cover other actions that impinged on its security.

Referring to European charters about an "out-of-area" role for Nato, Gen Galvin accepted that it would be a difficult issue.

"It's going to be, however, something that is definitely part of Nato's future." Nato had up to now been focused on specific assumptions about a threat from the Soviet Union. It now needed "a much more complex and efficient network of communications" to deal with crises.

He added: "The planning for what would happen if war did come would have to involve things like mobility with much bigger emphasis so that the southern region of Nato could be reinforced rapidly."

The deployment of US forces to the Gulf had demonstrated the importance of maintaining bases in Europe and other areas, such as the island of Diego Garcia in the Indian Ocean.

"This could not have been done if the US was sitting at home inside our gates," he said.

Gen Galvin, who is also commander-in-chief of the US European Command, warned against reducing US troop levels in Europe to a symbolic or caretaker force.

"The US is the leader of the western alliance and has to set the example," he said. Adequate US forces in Europe should comprise at least one army corps (there are currently two, the 6th fleet in the Mediterranean, tactical fighter wings and other air support forces).

He expressed concern that other allies' defence budget plans would reduce their forces by more than the 15 per cent foreseen in the Conventional Armed Forces in Europe (CAFE) treaty now being negotiated in Vienna. It was crucial that additional cuts should be built into a further negotiated agreement at a later stage.

Interview, Page 3

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Composer and conductor Pierre Boulez, fierce polemicist of the 1950s and 1960s, who rewrote musical history to his own aesthetic prescription, is today genial, relaxed and wittily tolerant. Page 32

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FORTHCOMING SURVEYS



Weathering the storm: the reinsurance industry was hit hard by last winter's catastrophic storms in north-west Europe. Attitudes are now changing the way the industry manages risk.

- TODAY: Reinsurance: a period of underlying uncertainty.
- Surveys over the coming two weeks:
 - Hungary: September 17.
 - Wales: September 17.
 - World Car Industry: September 18.
 - European Duty Free Industry: September 20.
 - City of London Property: September 21.
 - Denmark: September 21.
 - World Nuclear Industries: September 24.
 - World Economy: September 24.

CRISIS IN THE GULF

Mubarak urges US to keep preparing for war

By Tony Walker in Cairo

THE US was urged at the weekend by the moderate Arabs to continue its war preparations and to take whatever steps might be necessary to destroy Iraq's military strength if diplomacy failed.

President Hosni Mubarak of Egypt, who pledged to send more troops to Saudi Arabia, said peace would not come to the Middle East while Iraq was in possession of a vast arsenal of chemical and other weapons.

Speaking in Alexandria on Saturday with Mr James Baker, the US Secretary of State, at his side, Egypt's leader said that while a diplomatic solution to the Gulf crisis was desirable, the military option might be necessary.

"You know we are against chemical weapons, against the presence of missiles, because this is a very destructive means," Mr Mubarak said.

Egypt announced at the weekend that it is to send at least one mechanised division of 12,000-14,000 men to Saudi Arabia to reinforce 5,000 desert-trained commandos already on the ground, writes Tony Walker.

A western military attaché in Cairo said he expected that one division would be sent initially, with another in reserve.

"I think peace will never come with the presence of all these forms of weapons in the area," Mr Mubarak said.

Mr Mubarak's hard-line public remarks reflect the views being expressed in private by some of his advisers that the US and its allies should not delay too long in preparations for war against Iraq, which is showing little sign of compromise.

Mr Baker, who completed several days of talks in Saudi Arabia before travelling on to Egypt, is likely to have received a similar message from Saudi and Kuwaiti leaders.

The moderate Arabs, led by Egypt and Saudi Arabia, fear there may be a protracted sanctions battle in which President Saddam Hussein could be seen to be defying international pressure, while at the same time continuing his attempts to whip up anti-western sentiment throughout the Arab world.

Cairo has been deeply angered by the stream of abuse from Baghdad.

Mr Mubarak, who talked with Mr Baker for about 90 minutes, was careful, however, to say that diplomatic efforts should be given every chance to succeed before there was resort to war.

Baghdad envoy seeks help from Tehran

By Our Foreign Staff

IRAQ sent Mr Tariq Aziz, its Foreign Minister, to Iran yesterday to seek peace and Tehran's help in beating United Nations trade sanctions imposed for seizing Kuwait.

He was accompanied by Mr Isam Shalabi, Iraq's Oil Minister. Sources in Saudi Arabia believe the Iraqis are asking Tehran to sell them food at inflated prices, in violation of UN sanctions, and buy Iraqi oil cheaply for export through Iran's Kharg Island terminal.

The Iranian news agency IRNA said Mr Aziz, the first top Iraqi official to visit Iran since the 1979 Islamic revolution, would stay for one day. Tehran Radio said he would discuss Security Council resolution 598, which formed the basis of a Gulf war truce, with Ali Akbar Velayati, the Iranian Foreign Minister.

The visit, at Baghdad's request, follows the acceptance last month by Iraqi President Saddam Hussein of Iran's terms for a formal end to the 1980-88 war.

Mr Aziz, who is also deputy prime minister, is expected to ask Iran to return the favour and allow goods across the former war fronts.

On Saturday, the National Security Council met under President Ali Akbar Hashemi Rafsanjani and repeated Iran's opposition to the annexation of Kuwait.

● The US is considering releasing \$400m in frozen assets to Iran to prevent Tehran drifting towards Iraq, according to reports in Washington, reports Lionel Barber.

General Brent Scowcroft, national security adviser to President Bush, said yesterday that the US had been in regular indirect contact with Iran, but he declined to confirm or deny the New York report.

Mr Scowcroft said discussions aimed at resolving the dispute over \$1bn (\$510m) of assets frozen after Iranian militants seized the US embassy in 1979 had been going on for several months. "A very high percentage [of the cases] have been resolved," he noted.

Surge in oil exploration predicted

By David Thomas, Resources Editor

HIGHER oil prices are likely to unleash a worldwide surge in exploration for oil, according to Sir Peter Holmes, chairman of Shell Transport and Trading.

Shell, one of the world's two largest oil companies, believes that much of this increased exploration will occur in the US, because of the favourable tax regime there.

Sir Peter, in his first full interview since the Gulf crisis began, said \$25 a barrel was the appropriate price for oil following the loss of just over 4m barrels a day from Iraq and Kuwait. "I would have thought that the equilibrium price would be somewhere in the mid-20s."

That is because the crisis has almost exactly removed the cushion of over-production which was keeping oil prices low before the invasion of Kuwait.

"There is a mild shortfall. Opec can make up 3m b/d, demand will be down a bit, perhaps by the middle of next year, but by then Iraq and Kuwait will be back on their feet."

Of course there are the stocks... So there shouldn't be any real shortage, but on the other hand, there is no longer a cushion," Sir Peter said.

The fact that oil prices were now around \$30 a barrel was one end of a spectrum, of course there are the stocks... So there shouldn't be any real shortage, but on the other hand, there is no longer a cushion," Sir Peter said.

First, increased output as a result of a surge in oil exploration and the re-opening of marginal capacity. "If people really thought \$25 [a barrel] were here to stay, there would be an upsurge in exploration, particularly in the States," Sir Peter said.

He estimated that 400,000-500,000 b/d of small wells in the US, which were closed down because of low oil prices, could be restarted fairly quickly. "At \$25, there is an incentive for quite a lot of marginal capacity to come back on."

However, Shell's own exploration activity, which last year cost \$550m in 50 countries, would not increase. "We think we are exploring pretty well as hard as we can go."

Secondly, falling demand, particularly in the US, as a result of the higher prices. Sir Peter, who keeps a graph in his office tracing the relation between US gasoline prices and demand, predicted that present prices, sustained for a year, would cut US gasoline demand by 500,000 b/d from the current level of about 7.4m b/d.

While acknowledging the beneficial impact of the price rises on the oil companies' "upstream" production activities, Sir Peter said that "downstream" margins had been squeezed. That was because petrol prices rises at the pump had failed to keep pace with



Sir Peter Holmes: "Equilibrium price would be somewhere in the mid-20s."

again, just as had happened after previous oil shocks. "The post-crisis years, '74 and '81, were years of surplus. That was because people reacted to the crises by pulling out all the stops."

In particular, two factors would contribute to a surplus of oil immediately after the present crisis, if it proves to be prolonged.

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While acknowledging the beneficial impact of the price rises on the oil companies' "upstream" production activities, Sir Peter said that "downstream" margins had been squeezed. That was because petrol prices rises at the pump had failed to keep pace with

increases on the spot market. Sir Peter revealed that Shell had decided against an advertising campaign to explain this point to the general public, because it doubted whether many politicians and the popular press were interested in retorting the truth.

"MPs should know better. These politicians have to be elected and they have to make popular noises. In the States it's worse. Virtually every governor has written to the oil companies and Congress is hot on the trail. They all know what the facts are," Sir Peter said.

Shell's chairman also said that higher oil prices would feed through to higher gas prices in most of Europe early next year, as a result of the six-month lags in most large European gas contracts.

Fairly beyond the pumps, Page 15

Presidents united on invasion

Here is the full text of a joint statement issued at the end of a one-day superpower summit yesterday in Helsinki.

WITH regard to Iraq's invasion and continued military occupation of Kuwait, President Bush and President Gorbachev issue the following joint statement:

"We are united in the belief that Iraq's aggression must not be tolerated. No peaceful international order is possible if larger states can devour their smaller neighbours."

"We reaffirm the joint statement of our Foreign Ministers of August 3 1990, and our support for United Nations Security Council resolutions 660, 661, 662, 664 and 665."

"Today, we once again call upon the government of Iraq to withdraw unconditionally from Kuwait, to allow the restoration of Kuwait's legitimate government, and to free all hostages now held in Iraq and Kuwait."

"Nothing short of the complete implementation of the United Nations Security Council resolutions is acceptable."

"Nothing short of a return to the pre-August 2 status of Kuwait can end Iraq's isolation."

"We call upon the entire world community to adhere to the sanctions mandated by the United Nations, and we pledge to work, individually and in concert, to ensure full compliance with the sanctions."

"At the same time, the US and the Soviet Union recognise that UN Security Council resolution 661 permits, in humanitarian circumstances, the importation into Iraq and Kuwait of food. The Sanctions Committee will make recommendations to ensure that food reaches only those for whom it is intended, with special priority being given to meeting the needs of children."

"Our preference is to resolve the crisis peacefully, and we will be united against Iraq's aggression as long as the crisis exists."

"However, we are determined to see this aggression end, and if the current steps fail to end it, we are prepared to consider additional ones consistent with the UN charter. We must demonstrate beyond any doubt that aggression cannot and will not pay."

"As soon as the objectives mandated by the UN Security Council resolutions mentioned above have been achieved, and we have demonstrated that aggression does not pay, the Presidents direct their foreign ministers to work with countries in the region and outside it to develop regional security structures and measures to promote peace and stability."

"It is essential to work actively to resolve all remaining conflicts in the Middle East and Persian Gulf. Both sides will continue to consult each other and initiate measures to pursue these broader objectives at the proper time."

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Hurd calls for bigger contribution from Japan

By Ian Rodger in Tokyo

MR Douglas Hurd, the UK Foreign Secretary, has called on Japan to make a bigger contribution than it has so far to the multinational effort to force Iraq to withdraw from Kuwait.

"Japan has made a good start, but I shall be encouraging it to do more," Mr Hurd said on the eve of wide-ranging annual bilateral ministerial talks. "The requirements in the Gulf are mounting all the time. Every country has to contribute according to its means, and Japan has considerable means."

Japan, which faces legal and political obstacles to sending military personnel and equipment to the Gulf, has so far committed \$1bn (\$510m) to help the multinational forces there and \$25m for refugee relief. It is also working on a package of soft loans and grants for Jordan, Egypt and Turkey.

Mr Hurd said he would welcome an offer of minesweepers from Japan, but it was up to the Japanese to decide whether they could do that. He said Japan was now seeking a bigger role in world political decision-making, and it had to recognise there was a price to pay for this.

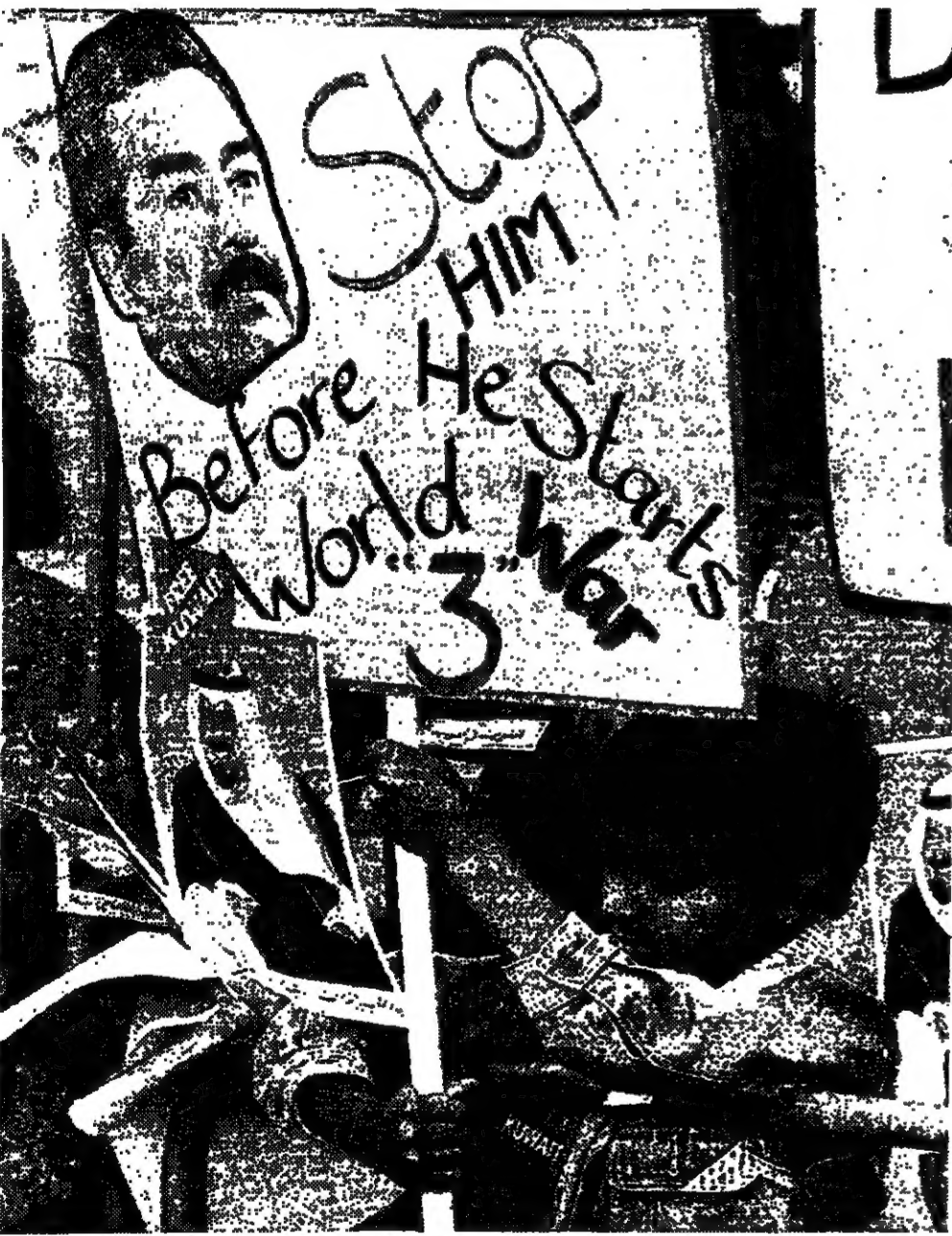
The foreign secretary was expected to raise several other matters in three hours of talks this morning with his Japanese counterpart, Mr Taro Nakayama, including aid to eastern Europe, developments in Hong Kong and China and the recent warming in Japanese-Soviet relations.

Although bilateral problems were few, Mr Hurd was to urge that Japanese financial institutions participate to the fullest possible extent in re-financing the Channel tunnel project, now in the midst of difficult negotiations.

Specific bilateral agreements on joint aid to eastern European countries were likely to be reached, British officials said. Mr Hurd said Japan had some considerable management and technology skills to offer, while the UK could provide language and institutional guidance.

The UK supports Japan's decision to resume business contacts with China this summer, and Mr Hurd was to seek Mr Nakayama's assessment of China's progress since last year's upheavals.

The foreign secretary was eager to learn of the results of the visit of Mr Eduard Shevardnadze, the Soviet Foreign Minister, to Tokyo last week.



Kuwaitis hold a rally and march through west London yesterday in protest at the Iraqi invasion

Kohl hopeful over constitutional change

By David Marsh in Bonn

THE proposed change in the German constitution to allow the Bundeswehr to participate in United Nations peace-keeping activities will underline a united Germany's new world responsibilities, Chancellor Helmut Kohl said yesterday.

Mr Kohl came out strongly in favour of a change in the constitution after the December 2 elections permitting German troops to join multinational peace efforts. This would be a contribution to "international solidarity," he said in a radio interview.

West Germany's refusal to take a direct role in the US-led military build-up in the Gulf has come in for criticism abroad, particularly in Washington.

There has been suspicion that Bonn is hiding behind the somewhat ambiguously-phrased articles in the constitution over the role of the Bundeswehr in order to duck its full responsibilities.

Responding to this, Mr Kohl said that in cases like the Iraqi invasion of Kuwait, "We cannot stand aside." The present constitutional ban on involvement in UN peace-keeping was "in no way tolerable for the future," he said.

Mr Kohl's willingness to aid the American military strategy in the Gulf is likely to be spelled out when Mr James Baker, the US Secretary of State, comes to Bonn next Saturday. Mr Kohl wants to make a gesture to thank the US for pushing through international agreement on German unity.

Bonn appears to have set its face against direct payments to the US to support the American military deployment in Saudi Arabia. But the government has declared its willingness to step up assistance for states such as Egypt, Turkey and Jordan affected by the crisis, and also to help the US in air-lifting military material to the Gulf.

IRAQ is trying to buy rockets from one of its traditional suppliers, Brazilian arms maker Avibras, according to Folha de São Paulo newspaper, our Foreign Staff writes. Avibras was unavailable for comment.

The news of Iraq's attempt to buy Brazilian rocket equipment comes just a day after it emerged that the Bush administration had agreed to lift a ban on export of Brazil of heat-treated rocket casings that US

missile experts believe could eventually help Iraq.

Iraq and Brazil have close and long-standing co-operative ties on missile and space launch vehicle projects, although these have supposedly been ended.

The Brazilian newspaper report said Avibras was testing its stocks of Astros rockets and preparing about \$100m worth of equipment for delivery to the Middle East.

NEWS IN BRIEF

'Slum conditions' for Asians in Kuwait

A NORWEGIAN embassy official has reported slum conditions and dangers of disease and starvation for some 500,000 Asians trapped in Kuwait, Tony Walker writes from Cairo.

Ambassador Hans Longva, evacuated to Baghdad over the weekend, warned that conditions for Indians, Pakistanis, Filipinos, Sri Lankans and Bangladeshis were "appalling."

He said food supplies were dwindling by the day, and the black market cost of food meant that it was beyond the means of thousands of refugees. "It is a very, very serious problem," he said. "Unless somebody does something it will be a catastrophe."

300 refugees an hour

Asians fleeing the Gulf crisis are flocking to Jordan at the rate of 300 an hour and tens of thousands more could arrive in a few days, relief workers said yesterday. Reuters reports from Amman.

The official Jordanian news agency Petra said 420,000 people had fled to Jordan since August 7, five days after Iraq's invasion of Kuwait, and 80,000 people were still in transit camps.

Explosions in Iraqi town

A series of 46 explosions were heard in the Iraqi town of Qaem near Syria's eastern border yesterday, Syria's official news agency reported. AP reports from Damascus.

The agency's correspondent in the Syrian town of Boukamal, 3 miles west of Qaem, reported that minutes later, appeals for urgent blood donations were made over loudspeakers in mosques.

Syrian human rights attacked

Human rights abuses in Syria continue to be among the most flagrant in the world in spite of flickering signs of greater liberalisation, according to the New York-based Middle East Watch, Tony Walker writes from Cairo.

The human rights group reporting on the widespread mistreatment of political prisoners and minorities in Syria, warned the west against identifying too closely with a repressive regime simply because of shared political goals.

Kuwait Airways to fly again

Having lost two thirds of its fleet to Iraqi invaders, Kuwait Airways announced at the weekend that it will resume flying in the near future, writes Lara Marlowe in Dhahran. It is transferring operations to Cairo.

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INTERNATIONAL NEWS

Brazil to meet banks after \$2bn loan from IMF

By Christina Lamb in Rio de Janeiro

THE BRAZILIAN Government is expected to begin talks with its foreign creditor banks next month after obtaining a crucial \$2bn loan from the International Monetary Fund.

The IMF agreement, to be signed formally in October, gives the first tangible seal of approval to President Fernando Collor de Mello's drastic economic adjustment programme. The Government hopes it will lead to better relations with the international financial community at a time when Brazil's credit rating is at an all-time low.

Two years ago, an IMF loan was suspended because of Brazil's failure to meet public sector deficit targets. In July 1988, Brazil stopped most interest payments on its foreign debt and is now \$6bn in arrears to commercial banks and \$2bn to the Paris Club group of government creditors.

Speaking in Brasilia on Saturday, Ms Zelia Cardoso, the Economy Minister, said: "The most important thing about the IMF agreement is not the amount but that it paves the way for negotiations with the Paris Club and private creditors."

Brazil's continuing *de facto* debt moratorium had been a sticking point in IMF negotiations. The major creditor

banks are likely to be angry that the agreement was given with no public insistence on Brazil resuming payments. A similar IMF facility to Argentina this year was only granted after the country agreed to make a token payment.

However, the Government apparently softened its stance after the IMF team left the country 10 days ago with no agreement. Last week President Collor told the *Financial Times* that a token payment was "being discussed." Mr Ibrahim Eris, president of Brazil's central bank, who two weeks ago insisted no interest would be paid this year, said in Washington: "Brazil intends to negotiate with the banks as soon as possible... there will be a general affirmation of this in the accord."

The creditor banks to which Brazil owes \$67bn are furious at its attempts to negotiate with individual banks. Of the 30 banks invited for one-to-one talks in Brasilia only 12 accepted, seeing it as an attempt to undermine the Advisory Committee through which negotiations are usually conducted. However, their hopes were raised when on Friday Mr Eris said he hoped to begin negotiations with the committee "probably in October."

Bhutto to stand in elections

MS Benazir Bhutto, Pakistan's ousted Prime Minister, is to stand in elections next month despite the prospect of being put on trial by the military-backed caretaker rulers, *Breitbart* reports from Karachi.

Her Pakistan People's Party (PPP) said she would stand for three national assembly seats in her home province of Sindh, including one from Nawabshah, the home town of caretaker premier Ghulam Mustafa Jatoi. She will also contest two seats from her ancestral district of Larkana and the provincial capital Karachi, both of which she won in the last elections in 1988. A candidate can contest more than one seat at a time but can keep only one afterwards.

Some former PPP government ministers have already appeared before special courts which can disqualify politicians from taking part in elections and jail them. The caretaker administration, composed of the PPP's opponents, has threatened a similar action against Ms Bhutto.

The PPP announced a provisional list of candidates for Sindh and Sheikh Rafiq Ahmad, the party's secretary-general, said lists for the three other provinces would be issued later.

Ms Bhutto told an Islamabad newspaper that she and the PPP would continue to dominate politics even if she was jailed or disqualified by a special court.

Pressure grows on Kaunda

MORE than 300,000 people gathered in the Zambian capital at the weekend to hear opposition leaders challenge President Kenneth Kaunda to speed up the pace of reform, *police said*, *Breitbart* reports from Lusaka.

The rally was organised by the Movement for Multi-party Democracy formed two months ago after President Kaunda reluctantly agreed to hold a referendum next August on whether to end 17 years of one-party rule.

Mr Arthur Wina, the movement's chairman, told the crowd: "My advice to these power-hungry people who want to cling on to power is [to] make alternative arrangements for your resignation - because we are not going to wait." Mr Wina urged the government to hold the referendum this year.

PLO claims victory over Abu Nidal

MR Yasser Arafat's Palestine Liberation Organisation guerrillas claimed yesterday they had defeated supporters of terrorist leader Abu Nidal after battles in tunnels under Lebanon's largest refugee camp, AP reports from Sidon.

Police reported that at least 75 people had been killed and more than 200 wounded since PLO fighters, mainly drawn from Mr Arafat's mainstream Fatah faction, cracked down on Abu Nidal's gunmen.

Nato commander on alert as peace beckons

Gen Galvin tells David White of his concern over the pace of disarmament in Europe

THE Gulf crisis is not "some kind of windfall for Nato" by refocusing attention on defence, says Gen John Galvin. "Just the opposite."

Gen Galvin, whose job it would be, in the increasingly improbable event of a war in Europe, to take command of Nato's forces, is worried about the "enormous costs" deployment to the Gulf are adding to strained defence budgets. He is also worried that the pace of negotiated disarmament in Europe will be overtaken by western countries rushing to make their own cuts.

His predecessors as Supreme Allied Commander Europe (SACEUR) - including Dwight D. Eisenhower and Alexander Haig - all faced "a looming, homogeneous, very specific threat."

Now, two months before the expected signing of the Conventional Armed Forces in Europe (CFE) treaty, Gen Galvin recognises that the risk of Nato being caught by surprise by the Soviet Union is "significantly less." Nato forces' alert

time is already being relaxed.

For the Soviets to get their divisions into fighting condition and move them across eastern Europe would "present quite a challenge for them, to say the least." But he warns: "We would still need to consider that such a move is possible... we need to put some of our minds to what we would do in the event, however remote, that it might happen."

If Nato built its forces on the basis of the CFE proposals, "we could come close to meeting the size of the force the Soviets could put forward," Gen Galvin says. "But my worry in this is, as we look at national planning, that we won't come close to meeting our own equipment levels that are permissible under the treaty. Now, that would be all right if the Soviets also did not meet their levels."

But I see a determination on the part of the Soviets to meet the levels of CFE. In fact, I see a great deal of discomfort in the Soviet military that they will have to come down to those levels in the first place." He is anxious that Nato mem-

bers should stick to their ceilings under CFE until a new phase of negotiations ("CFE2") He expects this may be slow in coming. "My guess is that both sides will not go gently into a new CFE," Gen Galvin says. They will already have a lot on their hands with complex equipment reductions, the "tidy-ing-up" negotiations ("CFE1a") expected to follow, new talks on short-range nuclear forces, internal Soviet troubles and western involvement in the Gulf. "I think that most people will feel that's enough."

However, Nato will later need to "keep moving" on conventional disarmament. "At lower levels of military strength, the dangers of being out of proportion to a potential adversary grow much greater."

If Nato members want to cut forces further, they should "get these things signed on the dotted line." All reductions should be tied into international agreements. "If not, we will be lowering and raising levels of troops willy-nilly... we are going to

be in the same position we've been in periods of uncertain peace in the past, such as the time between World War I and World War II."

The US, he says, should set the example to allies by maintaining "viable, competent, believable" forces in Europe. "In terms of the navy, that means the 6th Fleet. In terms of the army, that means not only a corps, of which there are now two, but also the air defence, the long-range communications, the intelligence and command and control capabilities, and other aspects of a ground force, as a minimum." It should also include a "sufficient number" of tactical fighter wings and other aircraft.

"Below that the force would still be a level of a certain level of commitment but it would not be the same symbol of leadership."

Gen Galvin hints at a possible east-west agreement on total armed manpower in Europe's central region, although Nato's current proposals cover only US and

Soviet foreign-based forces. Nato initially rejected a Soviet suggestion of a 700,000-750,000 troop limit for each side.

But he warns of the near-impossibility of monitoring troop totals. "I hope we will not have people who will later argue that the treaty is not good because the manpower is not verifiable. We should go into this with open eyes. Manpower is not verifiable."

The distinct change in attitude to the proposed manpower ceiling is indicative of the "shifting sands" of policy considerations since disarmament talks started last year. Gen Galvin is also revising his stance on the kind of nuclear weapons Nato needs.

The man he replaced in 1987, Gen Bernard Rogers, was recalled by President Reagan after complaining that US nuclear disarmament policy gave him gas pains. The 61-year-old Gen Galvin is more flexible. Until recently, he firmly defended the maintenance of land-based nuclear weapons, expressing worries about relying solely on aircraft for a tactical strike



Gen Galvin: flexible

capability. But now he says things have changed.

Gen Galvin's middle name is Rogers, but his is a very different style from the square-jawed Kansan who preceded him: a New Englander, bookish, a historian of the American Revolution, with a degree in English from Columbia.

In the early 1980s he commanded the 34th Infantry Division, currently in Saudi Arabia. Would he rather now be in the shoes of General Norman Schwarzkopf, commander of US forces in the Gulf? Gen Galvin smiles gently. "I have got enough to do," he says.

US unveils immigrants' shrine

By Alan Friedman in New York

ELLIS ISLAND, the New York immigration centre which served as a symbol for millions of newly-arrived immigrants to America, opens today as a memorial museum after a lavish, eight-year renovation costing \$158m (\$38m).

The island in New York harbour processed more than 12m immigrants during its peak years of operation between 1892 and 1954.

The once dank hall on the island, which is situated a stone's throw from the Statue of Liberty, has been restored to a pristine condition that few of the bedraggled immigrants would recognise.

The museum occupies a grand Beaux Art building where anxious immigrants used to wait on rows of benches to learn whether they would be accepted in



Doorway to America: a family of Hungarian immigrants photographed in 1910 by Augustus F. Sherman, Ellis Island's registry room chief clerk

America or turned away. A key feature of the new Ellis Island Immigration Museum is an exhibit replete with artefacts such as old

clothes, photographs, kitchenware and other personal effects which immigrants brought to the New World. The island itself, consid-

ered the best-known gateway to America in the early decades of this century, can be reached from Lower Manhattan by ferry.

Tokyo dispels market blues at art auction

By Michio Nakamoto in Tokyo

THE Japanese appetite for art has not been much dented by the Middle East crisis and the subsequent collapse of the domestic stock market, judging from the success of the first public auction of twentieth century Japanese paintings held in Tokyo yesterday.

The Shinwa Art Auction brought 102 western and traditional-style Japanese paintings to an audience of 1,200 in the spacious "Peacock Room" of a big Tokyo hotel. Sales, which came to ¥5.97bn (\$22.5m) at the post-auction count, offered few surprises, falling as they did within the estimated range of a total ¥5.4bn to ¥7.1bn. The failure rate at just 10 per cent was low enough to indicate to the auctioneer that Japanese collectors and dealers are still eager to buy.

"I am very pleased with the outcome," said Mr Tatsuo Hirano, president of Shinwa Art Auction, which was set up this spring at his urging by five

Japanese galleries.

There was interest enough in the leading Japanese names in western-style Japanese oil painting and traditional *nihonga*, but bidding was relatively subdued. There was little of the tense bidding with prices spiralling upwards that might have been expected from Japanese collectors looking at a market that they know best. While most of the paintings that were successfully auctioned fell within the auctioneer's estimates, many sold at the lower end.

Only one painting, a traditional *nihonga* scroll of a monkey sitting on a tree branch by Kanesetsu Hashimoto, caused a big stir. The painting was sold for ¥230m, compared with the estimated ¥70 to ¥90m.

By bringing the auction system to the Japanese art market, Mr Hirano hopes to provide an alternative to the closed trading system controlled by dealers.

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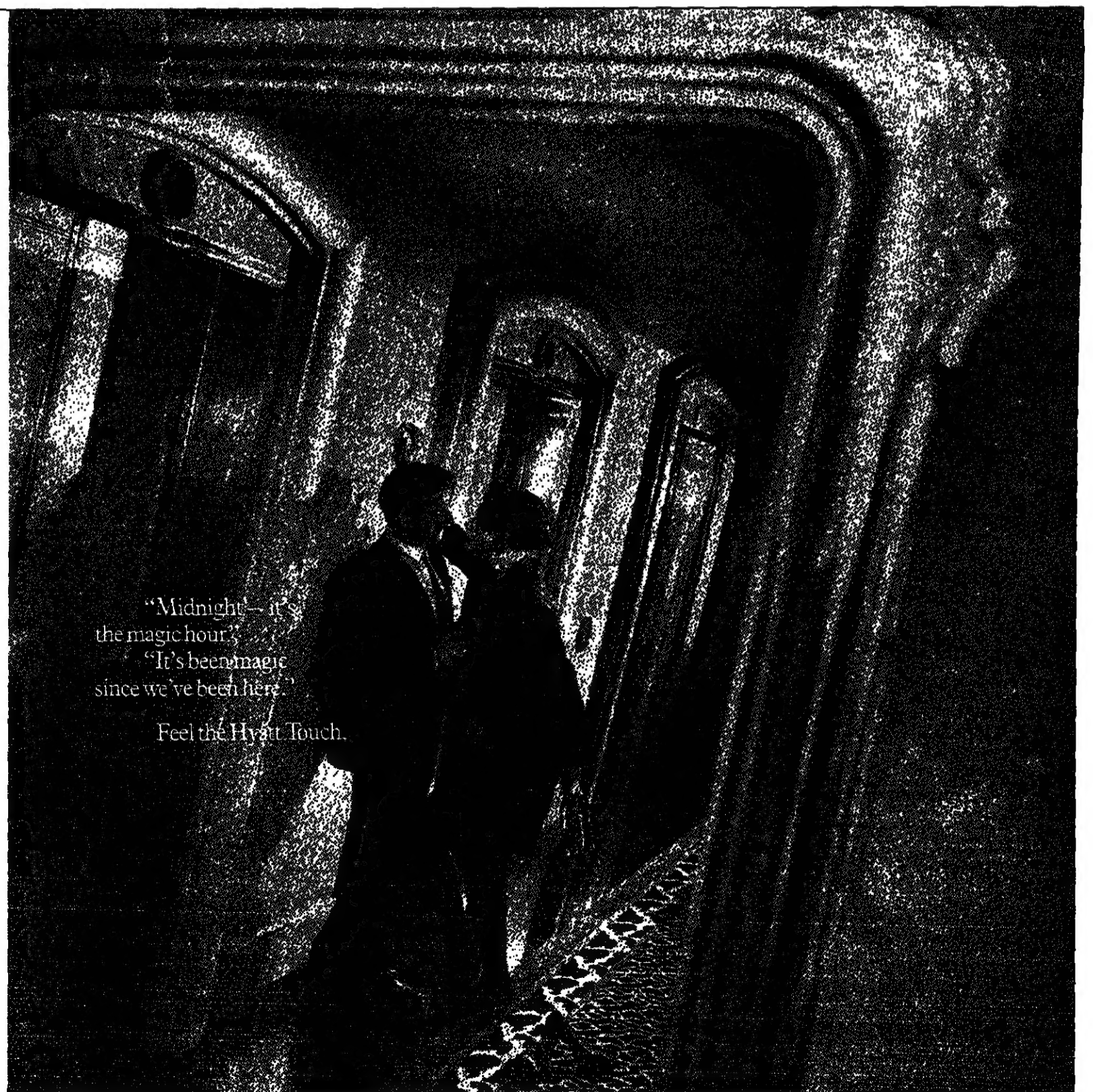
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INTERNATIONAL NEWS

Computer users to fight Commission software directive

By Alan Cane in London

EUROPE'S main computer users are joining forces in an attempt to influence the content of a controversial draft European Commission directive on computer software now working its way through the legislative machinery in Brussels.

They believe that if the directive is passed in its present form, it will seriously damage the development of commercial data processing and have profound commercial consequences for major users.

"To say the effect would be disastrous is not putting it too strongly," Mr R W Briggs, chairman of the newly formed Computer Users of Europe (CUE) association said yesterday.

The CUE, whose 70 members include large computer users such as Barclays Bank, Galileo International, the European airline reservation system and DLR, the West German Aerospace Research Centre, aims to seek a consensus of opinion from companies across Europe and make representations to the Commission and members of the European Parliament.

The draft directive, which has already divided the computer industry and caused a furore in Brussels, is designed to prevent software piracy which is costing software houses worldwide many millions of dollars every year.

It includes provisions, however, which effectively forbid "reverse engineering" and analysing software to establish how it works - without the prior consent of the software manufacturers.

Computer makers including ICL of the UK and Groupe Bull of France have complained that without the right to use reverse engineering, it would be impossible to build systems to coexist with those of international Business Machines (IBM) and Digital Equipment Corporation (DEC), the domi-

nant forces in the computer hardware businesses.

It would leave them, they argue, at the mercy of the larger manufacturers, IBM and DEC (and many software suppliers) are in favour of passing the directive as it stands.

The result has been one of the biggest rows Brussels has witnessed over an EC directive. To date, however, it has been the computer suppliers who have been making the running.

Now, with the formation of CUE, users in Europe are seeking to make their views known. Computer users have to make extensive use of reverse engineering to ensure their systems can be connected together and that software can be modified to run on their systems.

Mr Briggs, head of data processing for East Sussex County Council in England, is also concerned that organisations which have been planning to move to industry standard "open systems" which allow machines and software from different manufacturers to be used together will be restricted by the provisions of the directive.

"I will take us back 10 years to the days of manufacturers' proprietary architectures," he said. It might also spell the end of third party maintenance, one of the fastest growing areas of the computing services business.

Open systems are widely seen as a way through which computer users can save money on hardware and protect their investment in software.

The draft directive has been examined by the European Parliament and will shortly be revised in the light of recommendations by a Commission working group. Industry experts opposed to the directive say the Parliament's suggested modifications do not go far enough.

Two Germanys keep their spies on the job

By David Marsh in Bonn

EAST and West Germany are still spying on each other, just three weeks before the two states are formally united.

The West German foreign intelligence service, the Bundesnachrichtendienst (BND), still has agents sitting in East German ministries, according to Mr Peter-Michael Diestel, the East German Interior Minister.

He told the West German magazine Bunte that East Germany still had "several" spies in Bonn.

Mr Diestel appealed to the BND to end its espionage in the east, saying that if the West Germans wanted to find out anything about East Germany, all they had to do now was to ask.

Fresh evidence of East Germany's unabated espionage in the west came last week with the arrest of Mr Gerd Löffler, a deputy in the Hamburg state government, under suspicion of spying for East Germany between 1974 and May this year.

The Byzantine web of internal and external spying by the East German security services has cast considerable shadows over the unity negotiations

between East and West Germany.

As many as 500,000 East Germans are thought to have been informants for the country's all-pervasive security services, and no less than 68 deputies from the 400-strong East German parliament have been accused of working for the Security Ministry.

West Germany's BND is likely to carry out reorganisation of its activities after unification. First signs of this came last week with the announcement in Bonn that Mr Konrad Forner, a Social Democrat deputy, is to take over as BND chief from Mr Hans-Georg Wiese, the present head of the intelligence service, who has fallen out with the Kohl Government.

Bonn officials, however, have no illusions that east-west espionage will continue to be a fact of life.

A recent report from the counter-intelligence services in the state of North Rhine-Westphalia revealed that economic espionage by Warsaw Pact states increased in 1989, although political spying was claimed to have fallen.

EC ministers fall out over speed of monetary union

Only four nations now support the Delors Plan timetable, report David Buchan and John Wyles

THE passengers on Europe's Monetary Union express have resumed, with a vengeance, their old argument about the speed of their journey - though, except in the case of Britain, not about their final destination.

At this weekend's meeting of EC finance ministers in Rome, the hitherto broad unity of the 11 about a fairly rapid move to making institutional preparations for an eventual single currency fell apart.

Their consensus held solid on the final goal of monetary union. Indeed it was Mr Karl Otto Pöhl, the Bundesbank president, who cautioned strongly against EC states letting their monetary ambitions run ahead of their economic convergence. He presented a report as chairman of the EC central bank governors committee that showed how far that body has already gone in designing their blueprint for

the European System of Central Banks (ESCB).

But the prospect of higher oil prices driving EC economies' performance further apart, the distraction to Germany of putting its newly-united house in order and the scheduled certainty of treaty negotiations starting this December to change Europe's monetary set-up have all prompted a new go-slow mood among some key EC states.

As a result, only four countries - Italy, France, Belgium and Denmark - are still with Mr Jacques Delors, the European Commission president, in wanting a treaty commitment for a January 1 1993 move from the present European Monetary System of linked exchange rates (Stage One of the Delors plan) to setting up the ESCB which would gradually assume the monetary responsibilities of national central banks during

Stage Two of the plan.

At the other end of the spectrum, Mr John Major, the UK Chancellor of the Exchequer, was joined by his Greek and Portuguese colleagues this weekend in wanting no date at all set on this transition.

In the middle now is a go-slow group of countries, incorporating, most surprisingly, Spain. Its finance minister, Mr Carlos Solchaga, seized on the Major plan to develop a "hard" alternative to the existing Ecu basket currency which the markets could make the effective common money of Europe, in order to argue for a Stage Two phase that would begin in 1994, with a single currency only coming in the year 2000.

The "full steam ahead" camp of France, Italy, Belgium and Denmark and the Commission were clearly angered by Mr Solchaga using the hard Ecu plan, for which he had shown no previous enthusiasm, as a

pretext for a late and long Stage Two. Hoping that Prime Minister Felipe Gonzalez will eventually overrule his finance minister, they believe that the burning Spanish economy could easily survive in a monetary union without the aid that Ireland, Greece and Portugal are beginning to clamour for.

This weekend's double-act of Mr Theo Waigel, the West German finance minister, and Mr Pöhl, in laying prime emphasis on closer economic convergence between EC states may herald a more serious setback to fast-track movement to monetary union. Tactically, it gave Mr Major, who called for time not only for EC economies to converge but also for governments to analyse better what they really meant by convergence, a badly-needed issue on which to make common cause with the Germans.

Mr Pöhl said he could see sense in making the current

Ecu harder by progressively increasing its D-mark component. But promoting it as a parallel currency would only complicate moves to real monetary union. "Therefore the hard Ecu is only of interest to the commercial markets, not to monetary policy making," he said.

The real division that opened, re-opened in Rome was not over the UK hard Ecu plan, or its Solchaga variant, but the old religious war between "economists" and "monetarists". The first camp, led by Germany with the Netherlands in train, is that monetary union cannot run ahead of the economic fundamentals on inflation, public spending and the like - and if it does, it will break apart.

The second and largely Latin group argues that set monetary goals, dates and constraints can force economies together. They point, as Mr

Philippe Maystadt, the Belgian finance minister, did on Saturday, to the dramatic superiority in economic performance of those countries inside the EMS exchange rate mechanism over those, like the UK, still outside it.

Given the tenor of Saturday's discussion, Mr Guido Carli, the veteran Italian finance minister, limited the damage to his camp by cutting off debate rather abruptly in the afternoon.

None the less architectural work on the final EMU construction is well under way, Mr Pöhl said in his report. The possible sting for the politicians in all the work being done by the central bank governors is that the latter want all the ESCB statutes - "not only the highly constitutional provisions, but also those of a more technical nature" - to be written into an EU treaty.

'Palace coup' humiliates Dukakis

By Lionel Barber in Washington

GOVERNOR Michael Dukakis, whose political fortunes have never recovered from his crushing defeat in the 1988 presidential election, has fallen victim to a palace coup in his home state of Massachusetts.

Mr Dukakis was on a trade mission to West Germany when Lieutenant Governor Evelyn Murphy seized power over the weekend, declaring that radical moves were required to solve the state's budget crisis.

The Murphy-Dukakis split follows mounting concern over the economic recession in this overwhelmingly Democratic state - whose spectacular growth in the 1980s created the "Massachusetts Miracle" which provided the platform for Mr Dukakis to run for President.

Ms Murphy, who is running to succeed Mr Dukakis in this year's gubernatorial election, seized power by invoking Massachusetts law which allows the Lieutenant Governor to assume the powers of the Governor when the chief executive is out of the state.

Ms Murphy ordered cuts in spending and reductions in the state workforce, part of a detailed plan to address the state fiscal crisis. Mr Dukakis vowed to roll back the edicts when he returns home from his tour which was aimed at bringing jobs and investment to the state.

Ms Murphy's break with Mr Dukakis - coupled with her aggressive action plan - is viewed as useful publicity ahead of the September 18 Democratic



Michael Dukakis out of state, out of power

primary when she faces a tough run against Mr John Silber, the outspoken and politically untouchable president of Boston University.

The palace coup amounts to a humiliation for Mr Dukakis who has served three terms as governor in Massachusetts and has

hinted he would like to run for President again. It may, however, prove a distraction from the publicity surrounding his wife, Kitty's recently published autobiography - a painfully detailed chronicle of her battle against alcoholism and other forms of addiction.

World Bank criticises Hungary

By Nicholas Denton in Budapest

A LEADING World Bank official has reproached the Hungarian Government for its hesitant approach to the stabilisation and restructuring of the country's economy.

"There is little to be gained from prolonging the agony and one should rather look at the possibilities of moving as radically as possible," said Mr Willi Wapenhans, the bank's vice-president responsible for eastern Europe, at the end of a high-level World Bank delegation.

The World Bank has put its weight on the side of austerity

at a time when the Hungarian Government is deeply divided over Finance Minister proposals for a restrictive budget for 1991. The debate is all the more intense given the estimated \$100bn (\$1.5bn) cost to the budget of recent oil price rises, drought and the collapse of trade within Comecon, the East European trade bloc.

Already the budget deficit threatens to miss the \$10bn target for 1990 imposed by the International Monetary Fund. Foreign investment was being drawn in at a rate insufficient to compensate for the absence of domestic capital

and allow restructuring of industry without compromising the austerity programme, Mr Wapenhans said.

He faulted the Government for its sensitivity to accusations that state assets were being sold off at giveaway prices.

"Not wanting to sacrifice political support," he said, some officials were "excessively concerned" about reducing the price of state assets low enough to attract foreign investment. It is the government will be severely criticised. If it is not the foreign investment will not come."

Violence in Soweto leaves 26 dead

TWENTY-SIX people died during violence over the weekend in the black township of Soweto. Half of those killed died during a rampage by a gang including whites with black faces, witnesses said yesterday. Reuter reports from Johannesburg.

Elsewhere, nine people died in fighting rooted in the bitter rivalry between Mr Nelson Mandela's African National Congress (ANC) and supporters of the Zulu-based Inkatha Freedom Party, taking South Africa's weekend death toll to 35, police said.

The scene of the worst violence was at Soweto's Tladi shack settlement, where about 100 unidentified attackers, including whites with black faces, rampaged on Saturday night, attacking occupants and smashing houses apart, witnesses said.

They said gun-toting whites aiding the attack were given away by their blue eyes and unblackened hands. The incident will fuel ANC charges that right-wing extremists are responsible for instigating the month-long fighting around Johannesburg which has claimed more than 600 lives.

ANC officials say security forces and white right-wing members are joining supporters of Inkatha to fan the violence.

A police spokesman said 13 bodies were found, shot, stabbed or hacked to death, after the Tladi attack. Security forces fired shotguns, tear gas and rubber bullets at stone-throwing youths after moving in to keep peace in the area, he said.

About 50 people were wounded in the overnight fighting and taken to hospital for treatment, witnesses said.

Police said details of unrest in Natal, traditional breeding ground of the violence, would no longer be given to protect the province's tourist industry. Four people were shot dead when their minibus was ambushed at Voelorus township east of Johannesburg.

Three people were thrown from a speeding commuter train in Soweto by unknown assailants and were slightly injured.

Meanwhile, leaders from 14 African countries accused the South African police of encouraging inter-black violence, after being briefed on the weekend by Mr Mandela.

In a statement issued by a committee of the Organisation of African Unity (OAU), meeting in the Ugandan capital, they said the township violence would harm the struggle against apartheid if it was allowed to continue.

The ANC has argued that the security forces and white right wing members have joined supporters of its bitter rival, the Zulu-based Inkatha Freedom Party, to fan the violence in an attempt to end talks between the ANC and the Government on ending apartheid.

The Government and police deny the charges. Mr Mandela and Mr Jobson Mlambo, the Pan Africanist Congress (PAC) chairman, briefed the meeting on the situation in South Africa.

The meeting, chaired President Yoweri Museveni of Uganda, the current chairman of the OAU, was attended by Zambian President Kenneth Kaunda, Ethiopian Prime Minister Meles Zenawi, and Namibian Prime Minister Hage Geingob.

WORLD ECONOMIC INDICATORS

FOREIGN EXCHANGE RESERVES (US\$m)

	Jun '90	May '90	Apr '90	Jun '89
US	47,294	46,803	46,433	31,517
Japan	66,499	65,594	65,181	32,955
W. Germany	58,671	58,081	57,581	31,106
UK	31,599	31,066	31,190	34,494
Italy	61,489	55,832	50,548	37,345
Belgium	10,809	9,908	8,835	8,616
Netherlands	15,842	15,675	15,601	14,256
	Apr '90	Mar '90	Feb '90	May '89
France	25,469	25,542	22,901	23,797

Source: IMF

Europe's motor components makers braced for Japanese onslaught

The EC is likely to follow the US, where Japan's automotive suppliers have made big inroads, writes John Griffiths

WHEN western Europe's motor industry considers the future these days, attention centres less on the promise and opportunities of the coming single market than on the growing threat it perceives from Japanese competition from inside as well as outside the European Community.

European producers are lobbying the Commission hard to get Japan to agree to a period of voluntary restraint of both direct imports and vehicles assembled at EC "transplants" belonging to companies including Nissan, Toyota and Honda.

The Europeans fear that if Japanese carmakers are allowed a free run after 1992, they will rapidly increase their EC market share from roughly 10 per cent today to 20 per cent or more in a few years' time.

However, while the political debate has so far turned largely on sales of assembled Japanese vehicles, another challenge is quietly building up in the form of EC expansion by Japanese automotive component makers.

Though less publicised than the arrival of the "transplants", this development could have equally important long-term consequences for the competitive position of Europe's motor industry.

Apart from straightforward sales companies, nearly 50 Japanese component operations



THE EUROPEAN MARKET

have already sprung up around Europe. So far, only a handful are doing their own manufacturing. More than 30 are involved in some form of technical collaboration or joint venture with European partners.

Many have followed on the heels of the "transplants", which are expected to produce about 1m vehicles a year by the end of the decade. That compares with total western European production of about 13m units last year.

With an eye to local political and industrial sensitivities, Toyota, Nissan, Honda and other Japanese car manufacturers insist publicly that they do not expect this influx of component

makers to turn into a flood. None the less, judging by the experience in North America, where about 300 Japanese component ventures have been established in the past few years, the number of such operations in Europe is likely to continue to increase.

For European component makers, the development poses difficult questions. Will the Japanese be a positive influence, helping to strengthen the still highly fragmented European industry by collaborating with and transferring technology to local partners?

Or will the Japanese emerge as "enemies within", by first making European suppliers dependent on their technology, and then going on not just to supply local Japanese "transplants" but to wrest an ever larger share of business from European-owned car and truck makers? These issues are thrown into still sharper relief by recent changes in structure of the vehicle industry. Increasingly, vehicle makers regard themselves primarily as assemblers of complex component systems produced by external suppliers with which they collaborate closely on development.

As a result, the assemblers are growing ever more dependent on the value-added contributed by components groups

with strong in-house research and development capabilities and highly efficient production processes.

It is thus easy to understand why European component makers are disturbed by the influx of Japanese rivals, renowned for their high quality standards, manufacturing efficiency and closely interlocking shareholdings and other long-term ties with Japanese vehicle makers.

Much of the European component industry, which is still struggling to complete a restructuring process begun in the 1980s, is facing both ways on the issue. Many components makers, such as the large French Valeo group, publicly adopt a hostile stance towards the Japanese.

Mr Noël Goutard, Valeo's chairman, talks of the danger of a Japanese "takeover" and last year the company purchased Blackstone, a US producer of cooling and air conditioning systems, mainly to keep it out of Japanese hands.

Yet, in practice, Valeo has also been obliged to acknowledge that "if you can't beat 'em, join 'em". It has set up a Spanish-based joint venture with Nippondenso, Japan's largest components maker, to produce electronic ignition parts. Each partner has separate customers for the plant's

output, and each expects to benefit from economies of scale. Valeo also hopes to learn more about the detailed management systems through which Japanese production efficiencies are achieved.

However, the French company says it is determined not to allow its commercial independence to be eroded by increased reliance on its Japanese partner's technology.

It is less clear that the same can be said of another venture announced last month between Nippondenso and Magneti Marelli of Italy, the components subsidiary of Fiat - also a fierce public critic of the Japanese.

The two companies are setting up a 150m plant at Telford in Britain to produce vehicle air-conditioning and heating systems. Air-conditioning systems in particular are complex, expensive - and regarded as one of the really high value growth areas for European vehicles in the coming decade.

Magneti's stake in the venture is, however, only 25 per cent against Nippondenso's 75 per cent. There was not even a senior Magneti representative present at the announcement of the venture and Nippondenso executives made clear that the bulk of the technology for the venture would come from Japan.



Noël Goutard: danger of Japanese takeover

Nippondenso also said it had chosen a joint venture because it was likely to be "less controversial" than setting up a greenfield site on its own.

Magneti, like Valeo, Lucas Industries of the UK and some other leaders of the European industry, is fully aware of the scale of the potential Japanese threat. To date, the main difference between the European companies is their degree of confidence in being able to deal with it.

The larger European components groups have all made determined efforts to adapt their operations. They have established foreign manufac-

turing, research and development and other facilities to keep pace with a vehicle industry which is rapidly globalising and wants its major suppliers close to their assembly plants, wherever they may be located.

European groups also made many acquisitions in the 1980s, in the belief that the lion's share of components business in future will go to a small number of large "first tier" suppliers. These suppliers, the rationale goes, will work in continuing partnership with vehicle makers, rather than in the ad hoc adversarial manner of the past. Their reward for the heavy investments required is more profitable, long-term contracts.

But it remains to be seen whether they will succeed in strengthening their operations sufficiently to be able to collaborate with the Japanese on their own terms, rather than as junior partners. At present, Robert Bosch of West Germany is probably the European components group possessing the broad-based technology, resources and global presence needed to address that challenge with confidence.

For the thousands of smaller components suppliers scattered around Europe, whose ranks are already in sharp decline, prospects look bleaker still. Much of the industry is sub-

scale and faces further rationalisation. A further shake-out among European vehicle makers also cannot be ruled out.

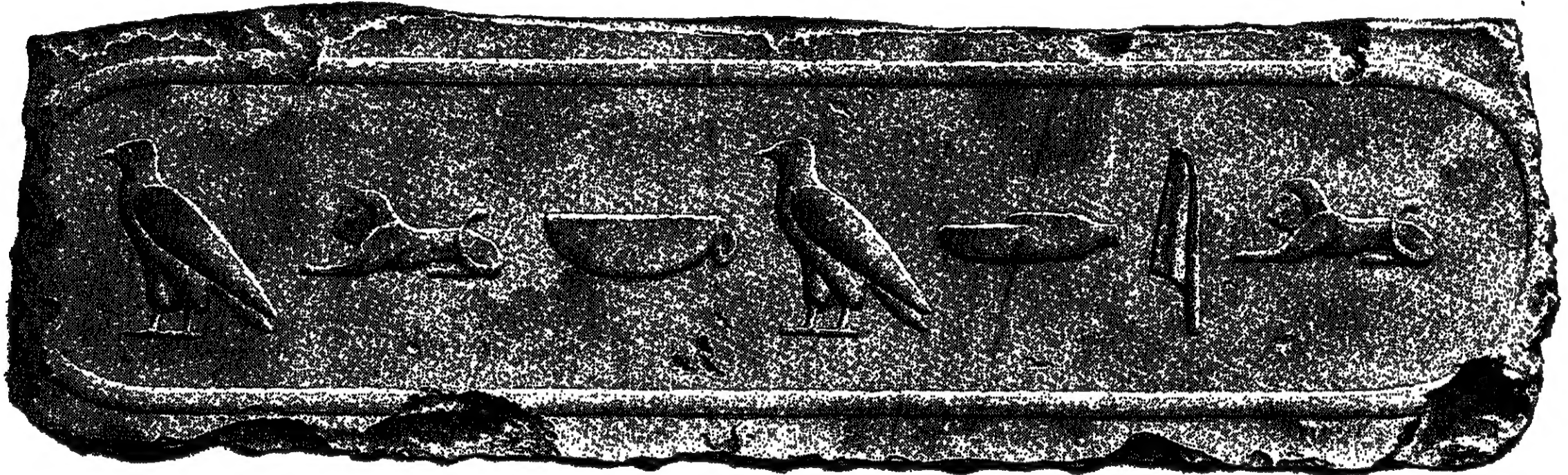
Japanese companies such as Toyota and Honda say they believe European-owned component suppliers can meet many of the needs of the European "transplants", and the record of Nissan's UK plant to date has borne this out. But few in the industry are convinced that this will hold good indefinitely.

Pessimists see a disturbing precedent in North America. Many Japanese component operations there are wholly-owned greenfield ventures, which have begun to cut into their US competitors' traditional markets. And among the roughly one-third which were set up as joint ventures, the Japanese are increasingly buying out their US partners.

Japanese component suppliers insist it will be harder to make profits in Europe than in the US because the market is much more fragmented. Hence, they argue, they have less incentive to set up there.

Sceptics respond by recalling Japanese industry's famous long-term view and argue that its encroachment in Europe will simply be more subtle and take longer. It is a scenario in which 1992 is almost totally irrelevant.

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Rising pound could hurt coal industry

By David Thomas, Resources Editor

BRITISH COAL may have to pay the privatised electricity industry millions of pounds in rebates because it failed to predict the upsurge in the value of the pound.

Provisions for rebates linked to the exchange rate are contained in hitherto undisclosed clauses of the three-year coal supply contract between state-owned British Coal and the electricity industry.

The contract, negotiated last autumn under government supervision, will be one of the most important factors determining the fortunes of the electricity industry during its early years in the private sector.

On British Coal's initiative, the contract contains clauses which provide for rebates if the value of the pound passes outside a range from \$1.40-\$1.75.

As from this month, if the average value of the pound is above \$1.75 for three months, then British Coal must pay the electricity industry a rebate. Conversely, the electricity industry will owe British Coal extra money if the pound's three month average value falls below \$1.40.

This is because movements in the exchange rate sharply affect the price of coal on world markets when translated into sterling.

A 30c appreciation in the

value of the pound, for example, reduces the competitiveness of British coal by about £10 a tonne - almost a quarter of its present price.

British Coal proposed this exchange rate clause because it wanted to avoid having to renegotiate the coal contract following sharp exchange rate movements.

Last autumn, British Coal also reckoned that the pound was more likely to collapse than to appreciate.

Unfortunately for the company, the Gulf crisis and speculation over Britain's entry into the Exchange Rate Mechanism of the European Monetary System have buoyed the pound.

It has been trading for more than \$1.75, the trigger point in the coal contract, since June 27.

Electricity industry insiders say they are in line for rebates running into tens of millions of pounds a year. British Coal says this estimate is greatly exaggerated.

Technically, the rebates will go to National Power and PowerGen, the two generating companies which signed the coal contracts.

But they are obliged by separate arrangements to pass the rebates straight through to their customers, the 12 regional electricity companies.

Prospects for British Rail privatisation fade away

By Richard Tomkins, Transport Correspondent

PROSPECTS for the wholesale privatisation of British Rail receded into the far distance yesterday as the Department of Transport acknowledged that BR's financial performance ruled out a flotation in the foreseeable future.

But the way appears to have been left clear in the medium term for a possible sell-off of one or two profitable sections such as InterCity and the bulk freight operation.

It had been widely thought that BR, under its new chairman, Sir Bob Reid, who takes over full-time next month, had been chosen by Mr Cecil Parkinson, the Transport Secretary, for privatisation after the next general election.

The Transport Department's confirmation of the setback follows the leaking to Mr John Prescott, Shadow Transport Secretary, of a briefing note for an all-day meeting of transport ministers and officials today to discuss BR's future.

The paper, put up by a senior Transport Department official, says BR's privatisation is a desirable objective, but concludes that the railway's financial outlook is not good enough to allow privatisation of the complete network in the lifetime of the next parliament. The Transport Department



Cecil Parkinson: backing down

yesterday refused to comment on the leaked document, but said BR's financial prospects meant it could not be ready for privatisation "for some years."

A lot more work is required before firm views can be reached either on whether the railways can be privatised or on the form in which this might be done, the department said.

Given the complexity of the necessary enabling legislation and the time it would take to pass through Parliament, this appears to rule out BR as a whole being privatised before the end of the century.

The discussion paper for today's meeting explores other

options which could lead to a partial privatisation of the system.

One is to press ahead with existing plans to split it into a series of independent businesses such as InterCity, Network SouthEast, Provincial and Railfreight, each with its own staff, track and rolling stock.

Under this system, when one business needed to use another's staff or tracks, it would pay a fee. The paper would be needed to make sure fees were fair.

InterCity, bulk freight and the European passenger operations should all be viable by the mid-1990s and could be the first candidates for a sell-off.

A second option, described in the paper as "very interesting" because it has received far less study, is to invite the private sector to take equity stakes in certain operations - for example, the West Coast main line between London Euston and the north.

This idea, which has the benefit of not requiring legislation, has a precedent with the setting-up of the Charterall freight venture with GKN, the engineering group, earlier this year.

NUM team to resume talks on Soviet funds

By Michael Smith, Labour Correspondent

NATIONAL Union of Mineworkers' leaders were today heading for talks in Paris amid hopes that their president, Mr Arthur Scargill, will back their claim for more than £1m of disputed funds controlled by the Paris-based International Miners' Organisation.

Mr Alain Simon, secretary general of the IMO, insists that the money, most of it collected in the Soviet Union during the 1984-85 UK pits strike, was intended for miners throughout the world. He has been backed in public by Mr Scargill, who is also IMO president.

However, some of the four NUM executive members leading the union's fight for the money left a meeting with Mr Scargill last Monday with the impression that he was ready to reverse his stance, opening up the possibility of a rift between him and Mr Simon.

Mr Scargill and Mr Peter Heathfield, NUM secretary, will accompany the four executive members in their talks with Mr Simon at the IMO's Paris headquarters.

Pressure is mounting on Mr Scargill to settle the increasingly bitter row over the Soviet money and other funds collected during the strike.

Miners from a breakaway

Soviet coal union last week gave evidence to Scotland Yard's fraud squad about the money collected in the USSR.

Mr Scargill is also facing prosecution under charges laid by the Trade Union Certification Officer, a government-appointed watchdog, who alleges that the union has failed to keep proper accounts.

This follows the report by Mr Gavin Lightman, QC, into the union's finances which accused Mr Scargill and Mr Heathfield of a breach of duty over their handling of funds during and after the strike.

Mr Kevin Barron, an MP and a non-voting member of the NUM executive, said yesterday there were discrepancies between Mr Scargill's statements on when the Soviet money was paid into the IMO-controlled accounts and evidence disclosed in a report by Cork Gully, the accountancy firm. The Cork Gully report was ordered by the NUM following the four-man team's recent fact-finding trip around Europe.

Should the IMO and NUM fail to agree on the ownership of the money, it is likely that some union executive members will want to revive recently suspended legal action against the IMO and its officials.

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Welsh grocers bar French produce over lamb war

By Emma Tucker

FEARS that the lamb war between the French and the British might spread beyond the farming sector increased yesterday when shopkeepers in Wales rallied to help local farmers by boycotting French produce.

About 70 grocers across Wales are refusing to stock French cheese, apples, vegetables, bottled water and wine. Farming union officials expected many more to join the growing protest this week after the series of attacks and hijacks in France in which hundreds of Welsh sheep have been slaughtered.

Since August 23 there have been 12 hijacks of British livestock carriers in France. In Bressuire, western France, French prosecutors have opened an investigation on charges of damage to property and armed violence against three farmers suspected of taking part in an

attack on a British lorry in which 219 sheep were burnt alive.

The complaints were filed by the abattoir for whom the sheep were destined and by the French animal protection society.

Meanwhile, North Wales farmers have suspended demands for a ports blockade against meat imports in the run-up to a meeting with Mr John Gummer, Minister of Agriculture, in just over a week's time.

"We will be trying to get some kind of support for farmers who are losing money," said Mr Cyril Lewis, a Welsh sheep farmer who chaired a protest meeting of around 500 north Wales farmers last week.

"There is a very great expectation from the meeting with Mr Gummer because after that we will not be able to keep people from some kind of direct action," he added.

Unit trust manager bans soft commission

Richard Waters

PHILLIPS & DREW Fund Management has taken a stand against the use of soft commissions in what is thought to be the first public statement by a leading investment institution against the practice.

Soft commission arrangements involve brokers in refunding part of their commissions to fund managers by paying for information or other services that help the fund managers to operate more effectively.

Critics claim that the practice harms fund managers' clients, since it ties the investment institutions to particular brokers and so could undermine their independence. The fund managers could be encouraged to deal more than is necessary in order to generate the required level of "soft commissions".

Mr Paul Meredith, chairman of PDM, said soft commissions "are likely to distort the efficient running of the market, and hide the true cost to the consumer." PDM had seldom used such arrangements in the past, and had now decided to ban them, he added.

Other investment firms are known to disapprove of soft commissions, although none has taken a public stance. They include Standard Life and Scottish Equitable, while Prudential is also known to have eschewed the practice in the past.

The Securities and Investments Board ruled recently that soft commissions were acceptable, but required their existence to be disclosed to fund managers' clients. In spite of PDM's stance, its sister company, UBS Phillips & Drew, is one of the most aggressive brokers in the soft commission price war that is currently raging in the City.

Led by Warburg, some brokers now refund as much as five sixths of commissions they receive, leaving little to remunerate the brokers. That cut-throat practice has given a further turn of the screw to the already struggling stock-broking business.

Mr Hector Santa, head of equities at UBS-P&D, said yesterday: "We would rather soft commissions didn't exist, but since they do, we are prepared to be competitive to win business."

Council tenants to vote on whether HAT goes ahead

Alan Pike says Housing Action Trusts are at stake

TENANTS on two south London council estates today begin a ballot that is crucial to the future credibility of the Government's Housing Action Trust policy.

HATs, announced in the 1987 Conservative election manifesto, are intended to revitalise inner-city estates by taking them out of local authority control and setting up businesslike trusts to undertake radical improvement programmes.

So far, however, every attempt to persuade tenants to agree to HATs has failed. If this week's ballot on the Gloucester Grove and North Peckham estates in Southwark goes against the trust, doubts about the continuation of the whole policy will be intensified.

The Government has given the London tenants extensive undertakings about their futures if they approve the trust proposal. Some HAT supporters believe they have obtained a virtual blank cheque from ministers anxious to save a policy intended to revive troubled inner-city estates in a way that would remove them from the control of mainly Labour-controlled councils.

Mr Michael Spicer, Housing Minister, has told the Peckham tenants in writing that the Government is "willing to make available whatever resources are needed" to make the HAT a success. He acknowledges that that would require a "very substantial amount of money" - £112m at 1988 prices, according to a consultancy report.

The Government has assured the tenants that they will be free to choose their future landlords when the HAT's renovation work is complete in five to eight years' time. It has

even added an undertaking that, if they want to return to Southwark Council, the Government will allow the local authority funds to buy back the estates.

In spite of such apparently generous pledges, there is no certainty that the tenants will vote for the HAT.

The estates abound with sarcastic jokes about Conservative hat-tricks and advocates of the HAT being as mad as hats.

No one in Southwark disputes the need for heavy investment in the prematurely derelict Gloucester Grove and North Peckham flats.

Completed only in the 1970s to provide more than 1,700 homes, their dismal corridors and walkways today make the estates among the most crime-ridden in London.

Crime is far from the only drawback - tenants complain equally of more mundane issues, headed by uncollected rubbish and grossly inadequate maintenance.

Labour-controlled Southwark Council has recently spent £2m on the estates and plans to start a further £2m worth of improvements in January. In spite of the bait of the HAT having much bigger resources, the council is urging tenants to vote against the trust.

The estates are within two miles of Westminster and Ms Sally Keeble, Southwark Council's leader, believes the HAT would lead to renovated properties being priced out of the reach of existing occupants. "Adequate housing for people of modest incomes can survive in London only if estates like these remain in local authority control, and councils are given adequate resources to renovate and maintain them."

Anger over the council's management of the estates and its alleged lack of responsiveness to tenants' wishes is a big factor in the HAT election campaign. Even Southwark councillors admit that their housing department is far from the most popular in London, the council is trying to change that image by decentralising services under a new director.

In spite of the inadequacy of existing services, some members of the tenants' association committees on the estates support the council campaign against the HAT.

"Many people in these flats earn less than £100 per week," says Ms Jean Ruby. "They know poverty and many have known homelessness. It would be reckless of them to give up the relative security of a council tenancy for the uncertainties of the HAT."

Ms Sandy Cameron, one of the leading advocates of the HAT, is like most of her neighbours, a Labour voter. She favours the trust not out of political sympathy for the Government but because she believes it will revive the estates.

She and other supporters have put remarkable effort into developing the HAT proposals, culminating in the production of a telephone directory-sized consultation document. It emphasises that the HAT must generate social and economic change as well as housing improvements, an argument the Government has accepted.

"Opponents say that since the HAT funding will come in instalments there is no guarantee that it will be spent," says Ms Cameron. "We have learned a lot while working on the HAT proposals and are certainly ready to fight the Government if they let us down."



Louise Rootie, who is campaigning against the HAT proposal, outside her flat on the Gloucester Grove estate with her mother and her children Lauren and Dane

If the vote favours the HAT, many tenants will be temporarily decanted during massive reconstruction work. A "no" vote, on the other hand, may not be the end of the story.

Southwark councillors hope that, having identified the scale of the estates' ills and the high cost of overcoming them, the Government will allow the council more money for improvements if the HAT is rejected.

Business optimism falls, IoD reports

By Terry Byland

BUSINESS confidence among Britain's company directors has fallen sharply, according to an Institute of Directors survey of members' opinions since the onset of the Gulf crisis.

Nearly three quarters (73 per cent) of the UK company directors surveyed were less optimistic about the UK economy than they were six months ago, and 50 per cent were less optimistic about prospects for their own companies - increases of 27 and 22 percentage points respectively since the previous survey in June.

The survey was carried out in the first week after Iraq's invasion of Kuwait and therefore reflects the Gulf crisis and the impact of higher oil prices.

Nevertheless, more than half (58 per cent) of the 1,000 UK directors questioned said their companies would be increasing investment over the next six months.

Insufficient demand was pinpointed by half the directors in the sample as their chief business concern. A clear majority (59 per cent) claimed that their companies' volume of business had either remained static or fallen, and 64 per cent believed that profits were on the same trend.

Dr Ann Robinson, head of the institute's policy unit, said that concern over insufficient demand demonstrated that high domestic interest rates were cooling off a "previously overheated UK economy."

She believed, however, that the steady levels of investment plans reported in the survey indicated that the UK economy was still some way off a recession. "The interest-rate cuts we would like to have seen in the near future... may now have to wait a little longer," she said.

Any substantial cut in domestic interest rates in the near term would adversely affect sterling and could thus "undermine a significant anti-inflationary force."

Rifkind endorses removal of Forsyth from Tory Party post

By James Buxton, Scottish Correspondent

MR Malcolm Rifkind, Scottish Secretary, yesterday underlined his satisfaction with the switch of Mr Michael Forsyth from the chairmanship of the Conservative Party in Scotland to a post in the Scottish Office.

Suggestions continued to circulate that Mr Rifkind was disappointed that Mr Forsyth had not been removed from the Scottish Office, along with counter-suggestions that Mrs Thatcher had done exactly what Mr Rifkind had proposed to her. Mr Rifkind is known to have poor personal relations with Mr Forsyth.

Mrs Thatcher dismissed Mr Forsyth, a right-winger, as party chairman in Scotland 14 months after appointing him in an attempt to end the feud that has riven the party. She also promoted Mr Forsyth from parliamentary under-secretary to the rank of minister of state.

Mr Rifkind said on BBC Radio 4 that the Prime Minister had acted because of concern among Tory voluntary organisations in Scotland that



Malcolm Rifkind: said to have engineered the switch of Mr Forsyth from the Tory central office, presided over by Mr Forsyth, was "not as close and intimate as it must be in order to make the maximum political impact."

With Lord Sanderson, until last week a Scottish Office minister, serving as the new party chairman, the voluntary organisations, central office

and Scottish Office ministers would now work in close harmony, Mr Rifkind said.

In what could be seen as a criticism of Mr Forsyth's chairmanship, Mr Rifkind said: "Central Office should never be seen as anyone's power base. It has clearly to speak for and represent all points of view in the party. Central Office has always been seen as organisational, there to support all Conservatives."

Mr Rifkind said he had no desire to disagree with those people who believed he had engineered the entire change. According to that theory, Mr Forsyth had to be persuaded to stay at the Scottish Office rather than resign from the Government altogether.

Political observers noted yesterday that if Mr Forsyth had moved Mr Forsyth from the Scottish Office it would have raised the necessity of filling his position from the remaining six Scottish backbench Tory MPs, while to bring in an English MP would have created even more difficulties.

Call to develop Green Belt areas for housing

By John Authers

NEW HOUSING development should be allowed in Green Belt areas and on Ministry of Defence land, according to a report published today by the Centre for Policy Studies.

The report says that the Government's willingness to give in to people whose attitude to new development is "Not in my back yard" (so-called "Nimbyism") has distorted the housing market, worsened inflation, homelessness and debt, and diverted resources from the areas that most need them.

The report, written by Mr Richard Egan, a former special adviser to the Department of Employment, recommends greater liberalisation of planning laws, combined with greater compensation for those who are adversely affected. The price of land has been forced up by restrictions on development, it says.

The think-tank recommends several measures to ease pressures on the housing market. New villages and small towns, rather than "scattered" estates, should be encouraged by the Government, particularly in the south-east. Land owned by the Ministry of Defence, which currently

covers an area the size of Cheshire or Nottinghamshire, should be made available for new development.

Building should be allowed in Green Belts, on areas of "brown" land, which are derelict, polluted and in need of regeneration.

One of the new village out of 170 current proposals has won local approval, a record which the report finds disappointing. The report also suggests a package of measures to ease resistance to new development, including non-compensation.

People who wanted to move away from a new development would receive up to 30 per cent more than the previous value of their homes, with similar compensation going to those who preferred to stay. "Nimbyism" would also be countered by improving the quality and design of new developments. Competitions would be held in the counties to find the best designs and the proceeds would go to the local residents affected.

Retailers seen as hopeful for cut in card charges

By David Barchard

RETAILERS appear confident of their ability to force banks to accept a new charging structure in the 1990s for consumer payments through plastic cards, according to a study from the Institute for Retail Studies at the University of Stirling.

The report's author, Mr Steve Worthington, says retailers have become increasingly skilled at negotiating lower service charges to the banks on credit card transactions.

The charge has already dropped below the 2 per cent mark and retailers believe that the charge will go below 1 per cent as soon as 1992 - even though banks and other financial institutions claim that that is impossible.

Many retailers believe they will ultimately be able to get the banks to accept a fixed flat transaction fee along the lines already introduced for debit cards such as Barclays Connect.

The Future for Plastic Cards and Payments Systems. Institute for Retail Studies, University of Stirling, £50.

Mr Herman Ouseley, Lambeth's chief executive, said in a letter to the Department of the Environment that he remained convinced his council had acted lawfully.

The law only prevents councils from altering their assumption on non-payment if they use information that was not available at the time the original charge was set, he said.

Lambeth poll tax action

THE Government is to take legal action against the London Borough of Lambeth, the only remaining council whose new poll tax has still not been accepted after a cap was put on its budget, writes John Authers.

The case should provide the final test on the extent of the Government's power to determine a council's level of poll tax. The case concerns the level of poll tax that councils can set. The Government wanted

Lambeth's poll tax to be cut from 2548 to 2496, but Lambeth set a charge £25 higher.

Mr Herman Ouseley, Lambeth's chief executive, said in a letter to the Department of the Environment that he remained convinced his council had acted lawfully.

The law only prevents councils from altering their assumption on non-payment if they use information that was not available at the time the original charge was set, he said.

N-stations' shutdown to be assessed

By David Green

NUCLEAR ELECTRIC, the state-owned nuclear power company, is to be required to provide the Department of Energy with regular assessments of the estimated costs of decommissioning plants.

Uncertainty surrounding these costs was mainly responsible for the withdrawal of nuclear power from electricity privatisation after the City gave a warning that investors would not be interested in purchasing the industry unless the Government accepted most of the financial risks involved.

The Government said it had not been kept informed about the possible costs of the work. Mr John Wakeham, Energy Secretary, has accepted a recommendation by Mr Michael Barnes, QC, the inspector who conducted the Hinkley Point C nuclear power station inquiry, that up-to-date estimates of decommissioning costs should be provided in future.

Mr Barnes has suggested that three-yearly assessments should be provided but Mr Wakeham is also to discuss the frequency with Nuclear Electric. He agrees, however, that the estimates should be published, subject to commercial confidentiality.

Mr Wakeham has granted planning permission for Hinkley Point C but has withheld consent for the necessary investment until after a government review of nuclear economics in 1994.

Mr Barnes says in his 3,300-page report that foreign estimates of decommissioning costs vary substantially and cannot be viewed as reliable. He says there has been inadequate provision in the UK to meet such costs and Nuclear Electric should in the future provide details of how the work will be funded.

The company said the expense would be less than 1 per cent of a station's total lifetime costs.

Commission proposes review of citizens' rights

By Alan Pike, Social Affairs Correspondent

THE LEGAL rights, duties and entitlements of British citizens should be reviewed and codified, an all-party Commission on Citizenship recommends to the Government today.

The purpose of the commission's two-year study, set up under the patronage of Mr Bernard Weatherill, Speaker of the House of Commons, was to examine the meaning of citizenship in the 1990s. It particularly recommends a re-examination of the law as it relates to the citizen.

Voluntary activity was one of the areas studied. Its work has already generated a practical initiative - the launch earlier this year of the Volunteers scheme, supported by the

Prince of Wales, which enables young people to carry out community work as part of their personal development.

In its report to be published tomorrow, the commission argues that equality is the fundamental principle of citizenship, and not the principles of competition and choice in the market.

In addition to a codification of the law, the commission suggests that there should be a comprehensive citizens' advice service including a "national advocacy scheme for disadvantaged groups who cannot claim their own entitlements." It says that, for example, the complexity of the benefits system is "quite unacceptable" and even social workers are unable to keep up to date with its details.

The commission proposes that the study and experience of citizenship should form part of every young person's education. Citizens who are not taught their rights would find it difficult to know where they stood in the law, whether to claim social entitlement or how to participate in public and lay bodies.

All big enterprises should consider making policies on community involvement and there should be proper support for the work of volunteers from school-leavers onwards. The honours system should also be modified to recognise citizenship and voluntary achievements.

The commission's report says that its recommendations are aimed at strengthening participatory arrangements in society. "Citizenship, whatever it means, is a cultural achievement, a gift of history, which can be lost or destroyed," it says.

The report also asks Mr Weatherill to pursue the possibility of setting up a standing Royal Commission or similar body to research and publish material on all matters related to citizenship.

Encouraging Citizenship. Report of the Speaker's Commission on Citizenship. HMSO, £2.



Bernard Weatherill: patron of the two-year study

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UK NEWS

New broom sweeps through rubbish dump industry

Waste disposal operators will soon have to clean up their act. Peter Marsh visits a site that claims to set the standards

THE TINY village of Calvert in Buckinghamshire is well off the tourist track. But the village's rubbish site - one of Britain's biggest - is an attraction to rival much better known visitor spots.

The site, made up largely of disused clay pits, extends over 400 acres and has the potential of storing 50m cu metres of waste over the next few decades - enough to fill St Paul's Cathedral 70 times over.

The site is run by landfill operator Shanks & McEwan. It receives 400,000 tonnes a year of mainly domestic rubbish, most of it carried by train from London and Bristol. Lorries then transport the waste to the tip, where it is piled up into artificial hills up to 40 metres high which are eventually layered with soil and grassed over.

There are about 5,000 land waste dumps in Britain, most of them much smaller than Calvert, which receives about 90 per cent of the 100m tonnes of domestic and industrial solid waste that Britain generates each year.

The waste sites are run by local authorities and private companies. Local authorities are responsible for disposing of most types of solid waste and regulating the dumps.

Standards in many of Britain's waste sites are far



Dirty work: Calvert's pits receive around 400,000 tonnes of domestic waste a year

from high. The industry accepts that few have adequate supervision of materials coming on to the site and hardly any have adequate methods of checking for hazardous materials in the effluent flowing from the dumps. The Environmental Protection Bill - which is due to become law in October, although some of its provisions will not be enacted for several

years - is expected to lead to tighter regulations and push up the costs of waste disposal.

The bill will establish the principle of duty of care - placing a legal responsibility on organisations producing waste to establish that there is proper disposal of the material.

Another change is that county councils, which at present both run and regulate

many land sites, will have to divide the functions of policing and operations by setting up separate waste-disposal companies.

Solid-waste disposal costs of between £10 and £20 a tonne are expected to rise by up to three times by the mid 1990s. That reflects the extra monitoring systems and other safeguards that waste disposal

sites will have to implement. "The general effect of the bill will be to push up standards," says Ms Linda Crichton, a landfill expert at Aspinwall, an environmental consultancy.

At Calvert, Mr Michael Philpott, director of environmental policy for Shanks & McEwan, bristles at the suggestion that his site is called a rubbish dump. "What looks like a crude operation is really quite high-tech," he says.

At the Calvert site, water leaking out from the rubbish is monitored for signs of noxious materials. All the rubbish is laid on a clay lining which is thought to be impermeable to most hazardous substances.

Shanks & McEwan is experimenting with collecting methane gas from the rotting rubbish. Rather than being allowed to remain in the ground - where the gas can constitute a hazard because of its explosive nature - the methane is piped to the surface to drive an electricity turbine.

It is thought the legislation will mean that large sites such as Calvert will eventually deal with virtually all Britain's rubbish, with the smaller sites closing down.

Of Britain's total 100m tonnes a year of solid waste, about 30m tonnes come from people's homes, with a further 30m from commercial premises. Industrial operations pro-

duce a further 50m tonnes. Waste disposal is a large and potentially profitable industry for private operators.

About 5m of the 50m tonnes of solid waste produced by the industrial sector is classed as hazardous.

Many British waste-site operators mix different types of rubbish in the same dump and hazardous industrial substances can be buried in a mass of ordinary domestic waste. Such co-disposal is frowned upon in the Continent, and the European Commission is preparing directives to outlaw the practice. The provisions of the UK environmental bill may hasten the demise of co-disposal in Britain.

The criticism is that with co-disposal, hazardous industrial substances can be buried in a mass of ordinary domestic waste. That may, say experts, cause unpleasant or dangerous chemicals to leak out of the tip into drinking water supplies.

"There will always be a degree of uncertainty about co-disposal," says Mr Rod Perriman, a former senior official at Her Majesty's Inspectorate of Pollution, the Government's main environmental watchdog. Mr Perriman now works as an environmental scientist at Imperial Chemical Industries, Britain's biggest chemical group.

Mr Henry Pullen, a director

of Cleanaway, a large waste management company, defends co-disposal. He says that mixing the two types of waste produces a stable chemical system, which reduces the possibility of hazardous materials being formed.

One of the main attractions of co-disposal is that it is cheap. Disposal costs would increase if the method were banned and producers of industrial wastes had to introduce new methods of getting rid of hazardous material.

One relatively new method is high-temperature incineration, which is used in the Netherlands and West Germany. In Britain only about 100,000 tonnes a year of industrial waste is incinerated - although the figure might rise if planning stages for new incinerators are approved.

As the cost of disposal increases, the UK waste-management industry may encourage recycling. Dr Jeremy Leggett, scientific director at the London office of Greenpeace, the environmental organisation, says that companies and local authorities need to focus on reclamation.

"We need more incentives to encourage industrial companies and domestic households to recycle waste. We should be trying to bring about a completely new shift in thinking," he says.

Conflict of demands seen for food trade

By John Thornhill

THE FOOD industry in the 1990s will have to reconcile consumer desires for less "artificial" products with demands for greater convenience, a report by Euromonitor shows.

The report says a balance will have to be struck between the purity of foods and the ease of preparation, aims that it suggests may not be wholly compatible. One area where tension may arise is the irradiation of foods, which, it says, is likely to meet resistance from retailers and consumers.

Consumers, alarmed by various food scares, have shown a marked shift towards foods perceived to be healthy. Low-fat, low-calorie foods, high-fibre breads, low-fat spreads and pasta form the fastest-growing sectors of the market.

In the past five years, the UK market for organic foods has grown from about £5m to £36m and Euromonitor forecasts that it may grow to £190m by 1993. Sales of organic foods will, however, continue to represent only a fraction of total food sales.

Healthy Foods and Healthy Eating. Euromonitor, 87-88 Turnmill Street, London EC1M 5QU. 071-251 8084. £450.

Zeebrugge deaths trial begins today

By Richard Tomkins, Transport Correspondent

SEVEN individuals and their employer, P&O European Ferries, will today go on trial at the Old Bailey charged with manslaughter after the Zeebrugge disaster in 1987.

The trial is expected to make British legal history in establishing whether manslaughter can be committed by a company as well as by an individual.

A total of 193 people perished when the Herald of Free Enterprise, a car ferry, capsized shortly after leaving the Belgian port of Zeebrugge on March 6 1987.

An inquest in Dover returned a verdict of unlawful killing in respect of 187 of the deaths, and after a 16-month investigation by Kent police, the Director of Public Prosecutions decided to bring charges.

Three of the individuals going on trial are former directors of Townsend Thoresen, the owners of the Herald of Free Enterprise, which was taken over by P&O just before the disaster. They are Mr Jeffrey Develin, chief superintendent of the company's marine department; Mr John Alcindor, deputy chief superintendent; and Mr Wallace Ayres, technical director.

The four other individuals are crewmen. They are Mr David Lewry, duty master of

the ferry on the night of the disaster; Mr John Kirby, senior master; Mr Leslie Sabel, first officer; and Mr Marc Stanley, assistant bosun.

All seven, together with P&O European Ferries, are charged with the manslaughter of Mrs Alison Joy Gaillard, one of the victims of the disaster. Mrs Gaillard's father, Mr Maurice de Rohan, is chairman of the Herald Families Association, which represents survivors and victims' relatives.

The maximum penalty on conviction would be an unlimited fine in the case of the company and life imprisonment in the case of the individuals. Earlier this year P&O tried to have the charges of corporate manslaughter quashed, claiming that a company did not have a human mind and so could not be negligent or reckless. An Old Bailey judge, however, refused the application.

Although charges of corporate manslaughter are not unknown in British legal history, previous cases have resulted in acquittal without establishing whether a company can commit such a crime.

The first day of today's trial is likely to be dominated by legal submissions, so the jury may not be sworn in until tomorrow. The trial is expected to last at least four months.

Transport body says roads among Europe's busiest

BRITISH roads are among the busiest in Europe even though the country has a comparatively low level of car ownership, the British Road Federation says in a report today.

The federation, which represents organisations of road users, says southern England has the most cars in Great Britain and Scotland the fewest.

Accident rates have almost halved since 1970, says the report. It identifies lorries as the safest vehicles on the road and motorcycles as the most dangerous.

The report, Basic Road Statistics 1990, shows that of the main European countries, only Italy has more vehicles per kil-

ometre. That relates to the last available year for figures, 1988. Yet Britain had only 333 vehicles per 1,000 inhabitants, compared with higher figures for France, West Germany, Italy and the Netherlands.

Similarly, Britain had far fewer miles of motorway than some other European countries - West Germany had nearly four times as much, yet motorways were often twice as busy in this country than those abroad.

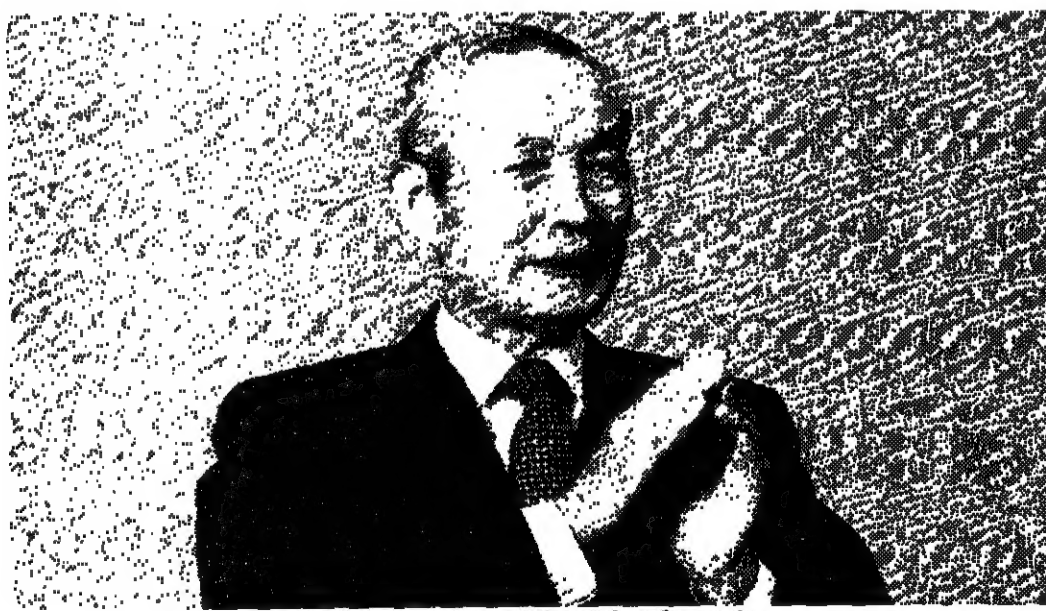
The BRF figures show that while there were only 5.7m cars in use in 1980, there were 19.2m on the roads in 1988. The figure was forecast to go up to more than 25m by 2000 and possibly 32m by 2015.

A Powerful New Partnership in Europe

The past five years have seen dramatic changes at Kubota Corporation. From its traditional pipe and agricultural machinery activities, it has expanded successfully into making work stations and electronic parts.

President Shigekazu Mino explains.

by Brian Robins



Mr. Shigekazu Mino, President, Kubota Corporation

Robins: Kubota has undertaken a series of diversification moves over the past few years, what is the overall aim?

Mino: I have to answer by deviating a little. Kubota recently celebrated its 100th anniversary. Looking back, we have provided customers with products and technology most needed at that time, and we have clearly been successful in doing so.

Our basic idea is not to expand our business areas as such, but rather, to respond to the changing needs of society. So, from this perspective, we are working to diversify our operations.

One example is the electronics field, where we are now entering the computer field. That may appear to be an unlikely move for us, but looking at our long history in producing machinery, we recognise the necessity of using computers if we are to succeed in the changing needs of society.

Robins: Looking specifically at the computer field, how does it fit?

Mino: As traditionally a manufacturer of various items of machinery, we realise the importance of computers in enhancing basic machinery functions.

Firstly, I can give the example of computers being used in the de-

sign, or research and development of machinery. Secondly, to manufacture our products, we can streamline production processes by using computers.

Rapid Growth in Computer Field

And thirdly, we can give our machines new functions by using computers. In this field, specifically, we are now aiming at producing work station-type computers, which are mid-sized units, between personal computers and large mainframes. We realise that these mid-sized computers will be ideal for us, as a manufacturer of many types of machinery. So, we intend to make the computer division independent. By using its newly developed technology to progress into new business areas, we are confident of success.

Robins: What is likely to be the future contribution of the computer activities?

Mino: We anticipate achieving annual sales of ¥50 billion in three years. At the moment, revenues are ¥15 billion. Since this is a new business for us, it is quite difficult to make a profit. Even so, we are sure we will be able to do so in three years.

New Engine Venture Underway in Europe

Secondly, in Europe, we have a production base in Spain, for medium-sized tractors and in West Germany for small-sized construction equipment. At the moment, we are supplying the engines used in these operations from Japan.

Cummins Engine has some production bases in the EC, so by utilizing their know-how and experience in this area, we want to establish a new company as a joint venture to produce engines for our operations in Spain and West Germany. To be approved as an EC manufacturer, perhaps we should be prepared to produce or procure engines in the EC.

Cummins Engine has been looking for stable shareholders for some time, and with this in mind, Temesco, Ford and ourselves reached agreement to take up direct equity in this company.

Robins: Along with the EC venture and the direct holding in Cummins, are any other tie-ups with Cummins likely?

Mino: Yes, as two of the leading diesel engine manufacturers, various ways of collaboration in terms of R&D, production, marketing are possible. Perhaps we may call it a strategic alliance. For example, we at Kubota are very good at making mid-sized engines while CE is good at large-sized engines. We are both working to export to other markets, so it is quite possible to share distribution and market information.

Robins: Looking at Kubota's other areas of operation, how are they performing?

Mino: Our major field of operation is agricultural machinery - tractors, rice planters, combines, and we also supply engines. This accounts for 40 per cent of total revenues. This also includes construction machinery and various engines for these items of equipment.

We also produce various pipes for water supply systems, which is about 30 per cent of revenues. As well, we make castings, mainly for production, for example, of tunnel segments, or buildings and also for general industrial use. This is about 10 per cent of revenues. And recently we have seen increased demand for housing materials, for example, roofing, walls for prefab housing and the like, which is about 10 per cent of revenues.

We also make vending machines, electronic parts and environmental equipment.

Robins: With the reconstruction of Japan that is now underway, what role will Kubota play?

Mino: In Japan, moves are underway to enhance domestic demand. In order to develop the country further, it is essential to improve the social infrastructure. Kubota can provide a variety of items of machinery and equipment in order to respond to the multitude of needs now emerging.

For example, we are seeing increasing demand for piping and materials for tunnel segments, and so on. In this field, we can make a positive contribution to society. As well, we can provide pollution control equipment such as waste control and sewage systems.

Benefiting from the Reconstruction of Japan

So, with the reconstruction of Japan, we can provide products and technology Japan now needs and I think this field is very promising for us in the 1990's.

Forty years ago, for example, the percentage of water supply systems in the major cities was only 29 per cent. Now it is above 94 per cent. But during this period of growth, no one anticipated the high levels of population density, the degree of automation that would occur or the growth in the number of autos. As a result, much of the water supply system uses poor quality pipes. So now, much of the system needs to be drastically upgraded, by using ductile piping.

In Japan, we have seen rapid economic growth, which is concentrated in the major cities but the basic infrastructure, the roads, sewage systems, water systems and the like are very poor - it is like we have a large head and very weak legs.

So, moving towards the Twenty First Century, we must upgrade our infrastructure. So, to that end, we think we can make our contribution to this development.

Similarly in the housing field, most people are living in poor conditions and want to upgrade. But at the same time, we are seeing a decline in the number of carpenters and the like. Very few want to enter this field now. This again provides opportunities for us, since we are providing housing materials, not for construction on the site, but in prefabricated units, etc.

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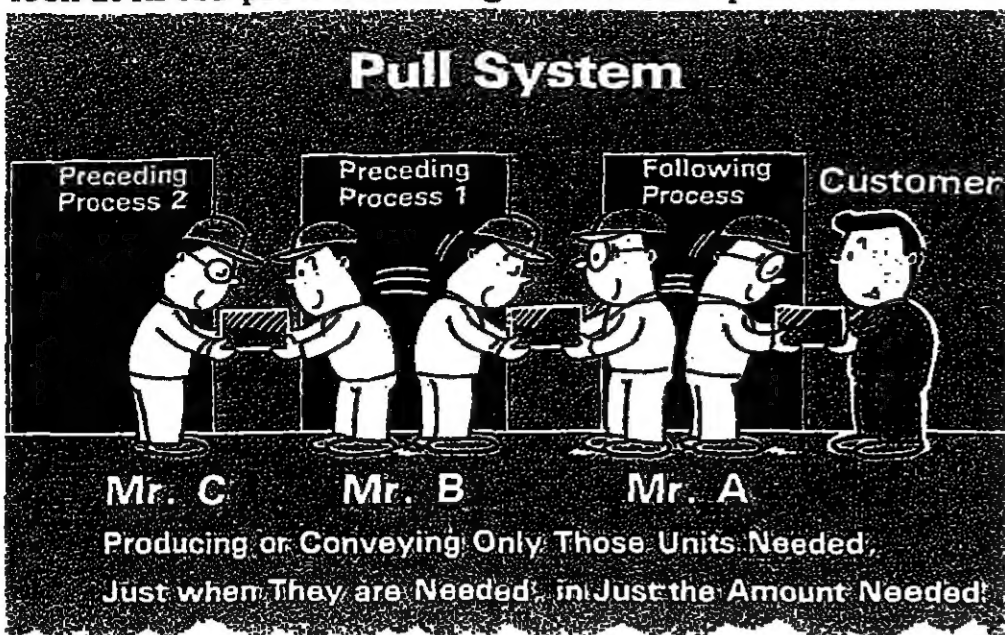
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MANAGEMENT

Toyota Motor

Delivering tomorrow orders made today

Ian Rodger explains why the Japanese group is taking a fresh look at its JIT process in the light of its US experience



Reproduced from a pamphlet on 'Production at Toyota - Our Basic Philosophy'

assembly line, they tend to make sure of the quality of their output.

If assembly workers know there is no surplus personnel to fix their machinery, they keep their eyes open for problems and do something about them when they emerge. (A characteristic of the Toyota system is that every worker has the right, indeed, obligation to stop the line if he detects a problem.) "Stocks made people feel safe. We want them to make every effort to prevent mistakes, to get to the root causes of problems," Jagawa says.

Two years later when the company started up its own plant in Kentucky, it decided to install the whole JIT production system, despite the risks and higher costs involved. That has meant that on occasion when an ordering error is made, parts have to be flown from Japan at great cost.

Also, the company found that US parts suppliers were unwilling to deliver every day,

so it set up depots in Detroit and Chicago where the suppliers could make more irregular deliveries. Toyota itself would make daily collections from the depots for delivery to the plant. What Jagawa called a milk-run was introduced to bring parts on a JIT basis from suppliers located near the plant.

Although all this caused significantly higher costs, especially at the outset when scheduling errors were frequent, Jagawa says the benefits are already apparent. "We have achieved unexpectedly high output in Kentucky. When we started, we thought we would get about 200,000 cars a year from the plant. With the same equipment, we would get about 250,000 units in Japan. Now, we are already at 240,000 in Kentucky."

"American workers have turned out to have a sort of Yankee spirit. If they have a target, they are just like the Japanese - they put their energies together to achieve it," he adds.

Then there is what he calls the kanban plus alpha effect. The introduction of just-in-time in Kentucky forced the company to start using modern technology. At the simplest level, kanban from the US destined for Japanese suppliers have to be sent by facsimile to save time.

High volume data communication links have been installed connecting Kentucky to Toyota City, enabling the head office to monitor overall production and even the real time performance of some sophisticated machines, such as body-assembly robot lines. "Because we are far away, we cannot see what is going on, but we want information. This has given a new dimension to the kanban," Jagawa says.

Based on the Kentucky experience, the same sorts of system will be installed at the Derby plant in the UK and at the two domestic plants announced last month. Jagawa believes a milk-run system will be adequate for the UK-based

parts suppliers, but depots will be needed for European suppliers. As for the Hokkaido and Kyushu plants, ships can be used for some parts, the national rail and trucking networks for others.

With the increased complexity of the production network, the need for more sophisticated data-handling systems is becoming more apparent. "We are starting to automate the information transfer process, installing automatic readers and sorters with our large suppliers. This is not so much to increase efficiency as to reduce the possibility of accidents," Jagawa says.

He acknowledges that the company has been slow to automate but says with a wry laugh that Ohno, who died in May at the age of 78, was very conservative. "He hated computers," he says.

Jagawa is now leading a major programme expected to take several years to complete, to turn just-in-time into real time at Toyota. The goal is to have a production system that can produce cars in response to real orders in the shortest possible time. "Our stocks for tomorrow should be based on what we are going to sell tomorrow, not on what we sold yesterday," he says.

He believes that competition in the world car industry will continue to be based mainly on the quality of products for the next decade or so. However, both European and US producers are already beginning to achieve the high standards the Japanese have set, and so the quality issue is bound to fade in importance. Thereafter, the key to competitive success will be timeliness of delivery, he predicts. "Customers will want their cars the day after ordering them."

The challenge for a volume car-maker is to build a production system capable of responding to that sort of demand as well as being able to operate effectively 100 per cent of the time. "If we wanted to create a system with 80 per cent uptime, that would not be so difficult," Jagawa says.

Toyota believes that, just as in JIT, the minimising of inventories holds the key to the success of this project, and so it feels it has an advantage over others. Indeed, even without a real time system, it already has a remarkably responsive and flexible production process. It can adjust its production schedule for any given day only three days in advance. Other Japanese, European and US companies still require a week to 10 days.

Management education

Western business schools advance on eastern Europe

By Haig Simonian and Simon Holberton

The 90 senior Czechoslovakian managers who started a one-year course in business administration at the new European Business School (EBS) in Prague last month will find it hard to avoid the impression of being guinea-pigs.

Apart from the international media interest on their first day, the inaugural group must be aware that hovering over their heads is a flock of west European companies, notably German, many of which may already be siding up the new intake for their future east European staffing needs.

The new school in Prague represents the fruits of nearly one and a half years of patient negotiations between representatives of EBS, based at Schloss Reichartshausen, near Frankfurt, and the former Communist government in Czechoslovakia.

The Prague EBS differs from its west European counterparts in a number of ways. Rather than teaching undergraduates, the German academics behind the Czech venture have, they claim, tailored it to the more urgent needs of local business and businessmen.

As Professor Jürgen Bunge, the man who led the negotiations with the Czechs, explains, with hard currency at a premium, undergraduate teaching would never have been adequate to make the new venture a going concern.

Hence the emphasis on management training for established executives rather than for school-leavers at the new school, which is being run as a joint venture between the EBS and the Czech government. All the opening batch of 90 students, aged between 30 and 50, are directors or heads of department at a variety of big Czech companies.

They or rather their employers - are coughing up the DM3,400 (£1,500) in hard currency and Kčs18,000 in domestic Czech crowns for 236 hours of tuition from local and foreign lecturers over the next year.

The venture marks one of the most recent attempts by western business educators to pass on their knowledge to

Eastern Europe's managers. But as the political and economic barriers to enterprise come down the urgent need for management training becomes more apparent.

As Jean-Pierre Salzmann, director of external affairs at INSEAD, Fontainebleau, observes: "People talk of a Marshall Plan for eastern Europe but the reason the Marshall Plan worked in the west was that there was an intellectual infrastructure receptive to capitalism. All that was needed was rebuilding. In eastern Europe they have to create everything."

The role that Europe's business schools might play in helping to create that "everything" could be vital. But so far the approach has been unfocused and undirected.

Not strategic

George Bain, principal at London Business School, says: "People are charging off in all directions. There is nothing very strategic about the activity. Also, there is a limit to what one British school, indeed all British business schools, can do for eastern Europe. The impact on the Soviet Union of having a group of Soviet managers attend a course here is minimal."

In eastern Europe and the Soviet Union, European business schools and emigre benefactors are involved in at least six ventures.

In the Soviet Union there are management schools in Leningrad (a joint venture with Italy's Milan-based Bocconi school) and Kiev. The Kiev school was founded by Bodhon Hawrylyshyn, a Ukrainian with Canadian citizenship, who was formerly director of the Swiss International Management Institute before it merged last year with Imeda in Lausanne to create IMD.

Yugoslavia boasts the oldest business school in the Eastern bloc, founded in 1886 in Slovenia. From next month, the Brio Management School will offer an MBA, taught in English.

In May last year, the Hungarians founded an International Management Centre in

Budapest, funded by the eponymous foundation of Hungarian-American millionaire George Soros. In Sofia, Bulgaria, Britain's Cranfield School of Management has been advising on the creation of the Sofia International Management School.

This is a jointly funded operation by Robert Maxwell's Communications Corporation and the Bulgarian Industrial Association. The Sofia school will offer a post-graduate management degree and also programmes for practising managers.

Leo Murry, Cranfield's director, says: "The worst thing they can do is blindly believe that the west has all the answers. To take a western model and not adapt it to local conditions just won't work. It is of critical importance that they do something for themselves rather than come here and, say, listen to wily academics lecturing about human relations management based on research conducted here."

According to Bain at the LBS, European business schools need to adopt a collective approach to management education in eastern Europe. In November the principals of IMD, LBS and INSEAD will meet in an attempt to gather wider support for this idea. The approach would, in Bain's words, be to seek to "train the trainers."

That's the way to get leverage," he says. "In terms of making a significant impact on eastern Europe and the Soviet Union the way to do it is to help them develop the educational capacity to train their own people."

Prague could be the first of a number of new EBS ventures. In eastern Europe, according to Professor Klaus Eward, the German president of the EBS Foundation.

Apart from signs of interest from the Russian, Rumanian and Hungarian authorities for schools, Eward has his eyes fixed firmly on East Berlin. Subject to the Bonn government agreeing to provide the DM5.7m funding required for a five-year project, he hopes to have a new East Berlin school running by next March.

LEGAL COLUMN

Challenge to minister seen over random bank searches

By Derek Wheatley, QC

ON August 16 I wrote in the Financial Times that the attempt by the Inland Revenue to gain the right under this year's Finance Act to make random searches of any bank account would be likely to be defeated.

I said that because of a clear undertaking given to the House of Commons on July 16 by Mr Richard Ryder, then Economic Secretary to the Treasury.

Mr Ryder's statement followed concern expressed by the banks about an amendment to the Finance Bill which provided that the board of the Inland Revenue might make regulations "with respect to the furnishing of information by... deposit takers including... the inspection of books, documents and other records on behalf of the board."

At first glance, those powers would be wide enough to allow the Inland Revenue to require details of the bank accounts of anyone without the need to give any reason or to have convinced anyone that there was any case to investigate.

The Inland Revenue has existing powers under the Taxes Act to obtain such

details. However, they can only be exercised when the investigating officer has convinced a Commissioner of Inland Revenue that there is a prima facie case of tax evasion and that there is a need for further evidence to bring the case home.

Because of the traditional privacy of the bank account and the long-standing legal obligation of the banker not to disclose his customer's affairs to anyone, these powers have seldom been used and only in proper cases. The Revenue has never been empowered to go on "fishing expeditions," that is to say, to seek tax evaders by random searching of all or any bank accounts or bank accounts of a particular class of person. It appeared it might now be trying to do so under the provisions of the amendment in the Finance Bill.

The concern that was felt had not been allayed at meetings between the British Bankers' Association (BBA) and Revenue officials. MPs were lobbied and Sir William Clark, chairman of the Conservative Finance Committee, expressed the widespread concern that was felt in the House on July 16. Mr Ryder, standing in for

Mr Lilley, gave the undertaking that the regulations would not have this effect.

He said emphatically there was "no question of fishing expeditions taking place." That ought to have been an end to it and to any fears of Big Brother becoming a reality.

Unfortunately, the officials of the Inland Revenue do not share that view, as subsequent discussions between the banks and Inland Revenue have confirmed. The deputy chairman of the Inland Revenue was able to offer some slight solace.

The new powers would be used only to verify declarations that interest could be paid gross to individuals because their income was insufficient to pass the tax threshold altogether.

Although that would clearly still be "fishing," at least it would be confined to testing the truthfulness of those declarations that their income was small so that no tax should be deducted.

It now appears that the Revenue proposes to renege even on that. The regulations have been drafted and it is understood that they mirror the wording of the amendment in

the Finance Act. Mr Ryder's undertaking and the slight comfort given by the deputy chairman have been ignored.

The officials of the Inland Revenue apparently see no reason why the regulations should not be all-embracing. They maintain that they would not be used to make random checks on all and sundry but only on the self-certifying non-taxpayers.

That should convince no one. Why should the regulations give wider powers if they are not to be used? And why, in any event, should the ministerial undertaking be ignored, whether confined to those who certified they paid no tax or not?

The BBA is not content to let things rest and is pursuing the matter with Mr Francis Maude, the new Financial Secretary. It is to be hoped that he will wish to honour the undertaking given by his ministerial colleague Mr Ryder.

If he fails to do so, it will begin to look very much as if Mr Ryder's views, carrying forward government policy as expressed by the Chancellor of the Exchequer, can be overruled by his civil servants.

Lessons of lunch with the public prosecutor

MR Rudolf Giuliani, the former US Attorney for the Southern District of New York, was in London last week to talk about insider dealing and securities fraud, writes Robert Rice. He led the mid-80s clean-up of Wall Street which, it is said, among others, Mr Ivan Bosky.

He told his audience at a City lunch hosted by solicitors Jacques & Lewis how surprised he was to see so many people having lunch with him in public. "In New York City where I was a US attorney no one had lunch with me in a public restaurant," he said. Being public prosecutor in New York had its drawbacks.

Two years ago he had been asked to present an award to a famous New York businessman at a dinner. He telephoned him a few weeks before in order to try to find out a few facts about him so he could make a personal introduction. The man never called back. Mr Giuliani arrived at the dinner at the Waldorf Astoria, sat

down next to him and introduced himself.

"I called you a few weeks ago," Mr Giuliani said. "I called you because I was introducing you tonight and I wanted to know a few things about your family and your background."

"Jeez," the man said, putting his head in his hands. "Is that why you were calling? You don't know how much money you've cost me in legal fees over the past month."

Asked later if he thought juries had any chance of understanding complex fraud cases such as the Guinness trial, Mr Giuliani said he was a firm believer in the ability of juries. It all depended on the skills of the lawyers in presenting the case, he said.

At the start of his career he had clerked for a federal judge and he remembered a trial where the prosecutor began his case in front of the jury by saying in a very solemn voice: "This is a very complicated

case. Very difficult to understand. About the securities afterwards."

The judge immediately called a recess and took everybody into the robing room. "Young man," he said, addressing the prosecutor, "I'm going to do you a big favour. I'm going to adjourn for three hours and I want you to come back this afternoon and I want you to begin your opening statement again as follows: 'This is a very simple case. Very easy to understand.'"

It is a lesson Mr Giuliani says he has never forgotten, although when he began his career as a prosecutor it did not prevent him from making his own mistakes. What he has learnt over the years is that it is dangerous to try to predict how juries will decide.

The first case he tried as a federal prosecutor was an assault on the high seas. Mr Giuliani was given the case because he was new and inexperienced and there were five

witnesses and a confession. Nobody could lose this case.

The case was tried with the aid of a senior prosecutor and finally they reached the summation which Mr Giuliani was to deliver. For the first 10 minutes he did not have the courage to look at the jury.

He had just reached the point where he was describing how the defendant had taken the knife and stabbed the victim when he looked up at the first time and caught the eye of a woman juror, number 11, who looked straight back at him and began to shake her head from side to side.

The jury retired and after two hours returned with a verdict of guilty on all counts. "The defence lawyer was as shocked as he was. He too had been watching number 11. He asked for the jury to be polled. Finally they reached number 11."

"Guilty," she said, shaking her head from side to side - in a nervous tic...

LEGAL NOTICE

PUBLICATION JUDICIAIRE

La Cour d'appel du Paris vient de confirmer un jugement rendu par la 17^{ème} chambre du Tribunal de Grande Instance de Paris le 12 juillet 1989 qui a déclaré Monsieur Jean-Francois KAHN coupable de diffamation publique envers Monsieur Alain BOUBLIL, agent de l'autorité publique, et Messieurs et Madame Jeanne VILLENEUVE, Olivier DROUIN et Patrice PIQUARD coupables de complicité de délit, infraction prévue et réprimée par les articles 23, 29 alinéa 1, 31, 42 et suivants de la loi du 29 juillet 1881.

Il a condamné Monsieur Jean-Francois KAHN à la peine de QUATRE MILLE FRANCS d'amende; Monsieur Olivier DROUIN à la peine de QUATRE MILLE FRANCS d'amende; Madame Jeanne VILLENEUVE à la peine de QUATRE MILLE FRANCS d'amende; Monsieur Patrice PIQUARD à la peine de quatre MILLE FRANCS d'amende; et dit que la poursuite exercée à l'égard de Monsieur Serge MAURY est sans objet.

Il les a condamnés solidairement à payer à Monsieur Alain BOUBLIL la somme de DIX MILLE FRANCS à titre de dommages - intérêts et celle de QUATRE MILLE FRANCS en vertu des dispositions de l'article 475-1 du Code de procédure pénale.

Pour extrait, Maître Thierry LEVY, Avocat à la Cour.

LEGAL APPOINTMENTS

INTERNATIONAL LAWYER
European Counsel

SCOR Corporation, a leading data networking company headquartered in California with 2000 employees worldwide and annual sales exceeding \$400 million, seeks experienced counsel to lead the company's European legal affairs. Based at our European headquarters in Paris and reporting directly to the General Counsel in the US, our European counsel will have primary responsibility for all legal aspects of SCOR's and its subsidiaries' European operations, including sales, joint ventures, intellectual property, licensing, disputes, contracts, labour and other matters.

The ideal candidate will have a law degree and be admitted to practice in the US, United Kingdom, France and/or Germany. An excellent academic record plus at least 5 years of relevant legal experience in Europe under the US are mandatory. Equally essential are perfect command of the English language, an excellent working knowledge of the legal systems and of the commercial law of the United States, EEC and EFTA countries as well as general skills in leadership, written and verbal communication, legal analysis, negotiation and project management. Comprehensive compensation package to include stock options and company car.

Qualified candidates are invited to send their detailed curriculum vitae, including salary expectations, to Legal Department, SCOR Europe, R.P. 609, 91945 Les Ulis, Cedex, France.

COMPANY NOTICES

KAWASAKI STEEL CORP.
Japanese Yen 10,000,000,000
Revenue Floating Rate/Fixed
Rate Notes Due 1996

In accordance with the terms and conditions of the Notes, we hereby give notice that the Yen 10,000,000,000 of the Notes issued for the period from 10th September 1990 to 11th March 1991 will be fixed at 8.625% giving the Interest Rate Factor of 4.593/280. On 11th March 1991 interest of Yen will be due per Yen 1,000,000.

The Mitsui Tokyo Maatschappij Bank Limited
London Branch
Agent Bank
Dated: 10th September 1990

ART GALLERY

L.S. LOWRY Private collection for sale. Serious enquiries only. (0203) 82227.

THE HIGH COURT
1990 NO. 10068P C.L.S.IN THE MATTER OF ENNEK
INTERNATIONAL PLC
AND IN THE MATTER OF THE
COMPANIES ACT 1985

NOTICE is hereby given that a Petition was on the 12th day of July 1989 presented to the High Court by the above named company, seeking the following relief:

(a) Confirmation of the reduction of the share premium account of the company from £1,000,000 to £400,000 by cancelling the share premium account of £600,000 and the reduction of the share capital of the company from £1,000,000 to £400,000 by cancelling the share capital of £600,000.

(b) An Order confirming that part of the capital of the company consisting of £1,000,000 divided into 1,000,000 shares of 1p each shall be reduced to £400,000 by cancelling 600,000 shares of 1p each and the reduction of the share capital of the company from £1,000,000 to £400,000 by cancelling the share capital of £600,000.

(c) An Order approving the terms of a Memorandum of Association and Articles of Association to be registered in the Companies Office recording the reduction of the share premium account and the reduction of the share capital of the company from £1,000,000 to £400,000 by cancelling the share capital of £600,000.

(d) Such further or other Order as to the Honourable High Court shall seem proper, including an Order providing for the costs of such application.

And further take notice that the said Petition is directed, to be heard before the High Court sitting at the Four Courts, First Floor, in the City of Dublin at 10 o'clock in the forenoon on the first opportunity after the 10th day of September 1990.

Any creditor or shareholder of the above named company desiring to oppose the making of the Order sought in the said Petition should appear at the time of the hearing in person or by Counsel for that purpose.

A copy of the said Petition will be furnished to any creditor or shareholder requiring the same by the undersigned Solicitors.

Dated the 14th day of August 1990
Signed: Whitely Moore & Keller,
Solicitors for the above named Company
Wilkin Park House,
Wilkin Place,
Dublin 2

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THE WEEK AHEAD

ECONOMICS

Inflation is month's key indicator

UK INFLATION data, to be released on Friday, will be the key indicator of the month for the markets and the first to reflect the rise in oil prices.

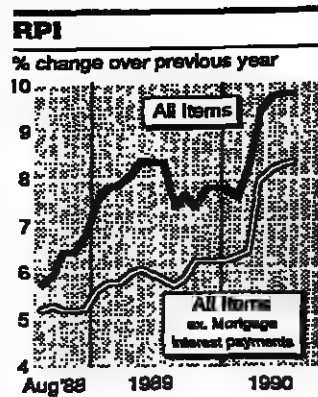
Much of this week's data is domestic, although all central banks have been cautioned by the International Monetary Fund not to relax policy in the face of the worldwide inflationary threat from the Gulf crisis.

UK headline inflation has remained under 10 per cent for the past two months because of lower food prices. But Mr John Major, the Chancellor, said last week that food prices and oil price rises were likely to have pushed inflation into double figures in August. Not all of the rises will be reflected because of the timing of the RPI's collection.

Fifteen pence on a gallon and higher beer prices are expected to add about 0.25 percentage points to the index.

The figure is also likely to be propped up by the base effects of a sharp drop in year-on-year growth in August 1989.

The Gulf crisis will also have



an inflationary impact on today's producer price indices, as oil prices account for close to 18 per cent of the total series. However, the rise in the dollar price of oil is softened when translated into sterling, giving a rise of only about 20 per cent.

Inflationary pressures within a weakening economy are likely to find illustration in the labour market statistics on Friday, with average earnings

keeping pace with inflation at 10 per cent.

Evidence of the consumer downturn and easing demand will be found in the retail sales figures for August. This is a volatile series on a monthly basis, but is showing the looked-for slowdown in the three-monthly growth rates.

Analysts are positive that wage inflation should ease as output and profits growth slow with rising unemployment.

The following statistics will be released during the week, with median market forecasts compiled by MMS International, the financial research company, in brackets. France, Germany, official reserves, wholesale price index (year-on-year 1.6 per cent); Switzerland, trade balance for August.

■ Today: UK, provisional retail sales for August (flat), producer prices (up 2 per cent, output, 0.4 per cent) for August. US, consumer credit for July. Switzerland, Bank of International Settlements meeting.

■ Tomorrow: UK, international banking statistics, second quarter. US, current account, second quarter. Japan, Bank of Japan reports.

■ Wednesday: UK, national accounts, 1990 edition (CSO Blue Book, 1989), balance of payments, second quarter. France, Council of Ministers discusses draft 1991 budget. Australia, retail trade for July (0.3 per cent).

■ Thursday: UK, labour market statistics, unemployment and vacancies, August provisional average earnings (10 per cent) July, provisional productivity and unit wage costs (6.4 per cent), capital issues and redemptions. US, money supply data.

■ Friday: UK, July, industrial output (down 1.3 per cent), manufacturing output (flat), retail price index month-on-month 0.7 per cent, and year-on-year 10.3 per cent, tax and price index for August. US, capacity utilisation (83.2 per cent), industrial production, retail sales (down 0.1 per cent).

Rachel Johnson

APPOINTMENTS

Chairman of Finlan Group

■ At FINLAN GROUP Mr Patrick Giles has become non-executive chairman. Mr Michael Rhode has resigned as chairman, but remains a non-executive director.

■ As a result, Mr Patrick Giles, Mr Christian von Bonin and Mr Michel Budinger have been appointed non-executive directors.

■ Mr Giles, Mr von Bonin and Mr Budinger represent a consortium of investors which invested £1.5m in the share capital of Finlan via the open offer, resulting in a shareholding representing around 21 per cent of the issued ordinary shares of Finlan.

■ Byk Gulden Lomborg Chemische Fabrik GmbH has appointed Mr Peter Blake managing director of its new UK subsidiary, CAMBRIDGE LIFE SCIENCES. He was

appointed sales and marketing director in November.

■ Mr Ian Ferguson has been appointed head of personnel resources within the gas business at BRITISH GAS headquarters in London. He was previously personnel director at British Gas South Eastern.

■ Mr Richard Christmas, managing director of P&O Shopping Centres, has been appointed to the board of P&O PROPERTY HOLDINGS.

■ PRECISION METAL FORMING has restructured its senior management as follows. Mr Derek Higgs, a former sales director and general manager, takes over as managing director.

■ Mr Derek Pugh, managing director, becomes deputy chairman, while Mr Mike Thacker, works director, will combine that post with the role of general manager.

■ Mr Pierre Hermans has become group product development director of HI-TEC SPORTS. He was

managing director of HI-TEC Sports UK.

■ Mr Steve Rogers, previously sales director, has been appointed managing director of HI-TEC Sports UK.



■ At RANK ORGANISATION Mr Terence North (pictured) has become a director. He is managing director of Rank's leisure division.

■ KELLOGG COMPANY has appointed Mr T.A. Knowlton as its chairman and managing

director of Kellogg Company Great Britain. He became managing director of Kellogg Company of Great Britain 18 months ago.

■ Mr Tony Mills has joined Cheshire-based LAXGATE to head a new company, Meadowbrook Foods, specialising in beverages and packaged foods.

■ Mr John Sandle has been made managing director at WELLMAN HIBBY, part of Wellman. He was managing director of the David Brown standard products division.

■ GUARDIAN ROYAL EXCHANGE has appointed Mr Allan Duggan as chief executive of its direct sales arm - QRE Personal Financial Management. He joins from National Mutual Life Association of Australasia where he was managing director.

■ Mr Mark Scott has been appointed director of UK sales at DICTAPHONE COMPANY, the supplier of office communications equipment.

TRADE FAIRS, EXHIBITIONS & CONFERENCES

CONFERENCES

SEPTEMBER 24
Financing Hotels and Leisure Property Conferences at the London Marriott Hotel, Grosvenor Square, London W1. Contact: Lucy Lloyd, Henry Stewart Conference Studies (071-935 2382).

SEPTEMBER 27-28
The UK Buy-Out Conference 1990 - London Town Hotel, Kensington. Contact: Louise Ward, Business Research International Ltd (071-637 4383).

OCTOBER 3
Taxation of Unit Trusts - The New Rules. Portman Hotel, London W1. Enquiries: Oracle Business Information (071-792 3105).

OCTOBER 17
International Retailing: a one day conference at Queen Elizabeth II Conference Centre, London SW1. £295 + VAT. For further details ring Verdict Research Limited (071-404 5042).

OCTOBER 17
First European Conference on Generic Risk II: International Continental, London W1. Contact: Technology Forum Ltd (081-900 1555).

OCTOBER 17 & 18
Life Office Taxation - The New Rules - Problems and Opportunities. Royal Garden Hotel, London W8. Enquiries: Oracle Business Information (071-792 3105).

NOVEMBER 7-9
How to obtain Long-Leasing & Profitable Agreements with Japanese Companies (Ref 1050A). Marlborough Court Hotel, London. Price £170. Contact: Frost & Sullivan Helpdesk (071-730 3438) Fax: 071-730 3443. Also available as an In-House presentation.

NOVEMBER 9-10
The U.S.M. Magazine presents: The Price Waterhouse International Second Market Conference at the Queen Elizabeth II Conference Centre, London. Contact: Susan Hall (071-606 2021).

NOVEMBER 13-14
International Conference on the Automotive Industry and the Environment at the Intercontinental Hotel, Geneva. (44-71224 1876).

NOVEMBER 16
Future and Forward Markets, Swaps and Options. Which Way Forward. The Institute of Petroleum, London. Contact: Caroline Little (071-636 1004).

NOVEMBER 22-23
Integrating Financial Policy & Business Strategy. Ref (1050) Holiday Inn, London. Price £275. Contact: Frost & Sullivan Helpdesk (071-730 3438) Fax: 071-730 3443. Also available as an In-House presentation.

NOVEMBER 28-29
Fundamentals of Finance & Decision-Making for Sales & Marketing Directors & Managers Ref 981A) Royal Westminster Hotel, London. Price £750. Contact: Frost & Sullivan Helpdesk (071-730 3438) Fax: 071-730 3443. Also available as an In-House presentation.

IMMIGRATING TO CANADA?

Canada welcomes foreign business people, entrepreneurs and executives who wish to establish a business in Canada.

As a consulting firm in Canada, we offer our services in assisting you to obtain an immigration visa for permanent residence and advise you on a business venture that may interest you.

Mr John A. Garuffi, President of International Entrepreneurs will visit the following areas and will be available as follows:
Abidjan Intercontinental Hotel - Sept. 7-10
Lagos Sheraton Hotel - Sept. 10-15
Dar Es Salaam Embassy Hotel - Sept. 16-20

Interested candidates may contact him at the above hotel or write to our Head Office directly.

International Entrepreneurs I.E.C. Ltd.
Quebec (Head Office)
2075 University Street,
Suite 1712
Montreal, Quebec
Canada H3A 2L1
Tel: (514) 288 7825
Fax: (514) 845 1472
Telex: 055-61985

Ontario
20 Queen Street West,
Suite 602
Toronto, Ontario
Canada M5H 3R4
Tel: (416) 599 5955
Fax: (416) 599 9620

Nova Scotia
518 Young Avenue
Halifax
Nova Scotia
Canada B3J 2V3
Tel: (902) 423 0504
Fax: (902) 429 8947

CONTRACTS & TENDERS

INVITATION NO T-01/83
The Peoples Democratic Republic of Ethiopia has received a loan from the African Development Fund in various currencies towards the cost of Road Maintenance Equipment and spare parts and it is intended that the proceeds of the loan will be applied to eligible payments under the contract for the supply of equipment and spare parts.

The Ethiopian Transport Construction Authority now invites sealed bids from eligible bidders for the supply of Road Maintenance equipment and spare parts. Only Suppliers from member countries of the African Development Bank and African Development Fund state participants are eligible to bid. All Goods and ancillary services must have origin from member countries of ADB and ADF state participants.

Interested eligible bidders may obtain further information from one set of bidding documents to be collected during office hours from the Procurement Office Room No 106 upon payment of non-refundable Bkr 50.00 per set. Each request for documents shall be accompanied by the Official name and address of the bidder.

The closing date for submission of bids shall be 10:00 hours local time on October 2, 1990 at which time the opening will take place in the Conference Room 4th floor of the Ethiopian Transport Construction Authority Head Quarters Building.

The Ethiopian Transport Construction Authority reserves the right to reject any or all bids that are not in conformity with all conditions and specifications mentioned in the tender.

ETHIOPIAN TRANSPORT CONSTRUCTION AUTHORITY

UK COMPANIES

PRUDENTIAL, the largest insurance company in the UK, announces its results on Wednesday. It is assumed that they will be sharply down on the 1989 half year pre-tax profit of £196.7m, but the market is divided about how far they will fall.

Estimates range from between £80m-£140m.

BTR, the UK-based industrial conglomerate, is likely to have to content itself with a

5-7 per cent profit advance. Taxable profits of £540m-£550m are expected in the report on Wednesday.

Interim results at Fisons, due to be released on Tuesday, are expected to manifest growth as rapid as a shrub planted in the pharmaceuticals, scientific equipment and horticultural group's compost.

Analysts are calling for pre-tax profits of £89m-£90m against £57m last time.

UK COMPANIES

TODAY

COMPANY MEETINGS:
Excalibur, Excalibur House, Park Lane, Birmingham, 11.00.
Ferranti Int'l, Millbank Tower, Millbank, S.W., 12.15.

BOARD MEETINGS:
Pleasants, 38 St. Leonards Road, Eastbourne, East Sussex, 12.00.

SEPT 12:
Sitting, Stakhill Lane, Salford Avenue, Middleton, Manchester, 12.00.

SEPT 13:
Zellers, Clerkenwell Conference Centre, Clerkenwell Green, E.C., 11.00.

BOARD MEETINGS:
Pleasants, 38 St. Leonards Road, Eastbourne, East Sussex, 12.00.

SEPT 14:
Sitting, Stakhill Lane, Salford Avenue, Middleton, Manchester, 12.00.

SEPT 15:
Zellers, Clerkenwell Conference Centre, Clerkenwell Green, E.C., 11.00.

SEPT 16:
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SEPT 31:
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OCT 1:
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Sitting, Stakhill Lane, Salford Avenue, Middleton, Manchester, 12.00.

NOV 9:
Zellers, Clerkenwell Conference Centre, Clerkenwell Green, E.C., 11.00.

NOV 10:
Sitting, Stakhill Lane, Salford Avenue, Middleton, Manchester, 12.00.

NOV 11:
Zellers, Clerkenwell Conference Centre, Clerkenwell Green, E.C., 11.00.

TODAY

COMPANY MEETINGS:
Excalibur, Excalibur House, Park Lane, Birmingham, 11.00.
Ferranti Int'l, Millbank Tower, Millbank, S.W., 12.15.

BOARD MEETINGS:
Pleasants, 38 St. Leonards Road, Eastbourne, East Sussex, 12.00.

SEPT 12:
Sitting, Stakhill Lane, Salford Avenue, Middleton, Manchester, 12.00.

SEPT 13:
Zellers, Clerkenwell Conference Centre, Clerkenwell Green, E.C., 11.00.

BOARD MEETINGS:
Pleasants, 38 St. Leonards Road, Eastbourne, East Sussex, 12.00.

SEPT 14:
Sitting, Stakhill Lane, Salford Avenue, Middleton, Manchester, 12.00.

SEPT 15:
Zellers, Clerkenwell Conference Centre, Clerkenwell Green, E.C., 11.00.

SEPT 16:
Sitting, Stakhill Lane, Salford Avenue, Middleton, Manchester, 12.00.

SEPT 17:
Zellers, Clerkenwell Conference Centre, Clerkenwell Green, E.C., 11.00.

SEPT 18:
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SEPT 19:
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SEPT 26:
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SEPT 27:
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SEPT 28:
Sitting, Stakhill Lane, Salford Avenue, Middleton, Manchester, 12.00.

SEPT 29:
Zellers, Clerkenwell Conference Centre, Clerkenwell Green, E.C., 11.00.

SEPT 30:
Sitting, Stakhill Lane, Salford Avenue, Middleton, Manchester, 12.00.

SEPT 31:
Zellers, Clerkenwell Conference Centre, Clerkenwell Green

FINANCIAL TIMES

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Monday September 10 1990

Common front
in Helsinki

THE JOINT statement issued by President George Bush and Mr Mikhail Gorbachev after their one-day summit in Helsinki is a confirmation that the international front formed in the wake of Iraq's annexation of Kuwait remains solid in spite of the attempts by President Saddam Hussein to drive a wedge between the two superpowers. Mr Gorbachev has demonstrated unequivocally that he is staunchly on the side of the US and the other states who are trying to force Iraq to relinquish its illegal gains.

Disagreements may persist on whether and when military force would have to be used to achieve this objective or how the decision to use such force should be taken. But, on the central issue, there is no ambiguity. The US and the Soviet leaders agreed that Iraq's aggression must not be tolerated and that no peaceful international order was possible if larger states could devour their smaller neighbours.

Their declaration is couched in particularly strong terms. It says they will accept no Gulf settlement "short of the complete implementation" of the United Nations Security Council's resolutions calling for Iraq's withdrawal from Kuwait. Equally important, they call upon all countries in the world fully to adhere to the UN sanctions against Iraq following the invasion of its neighbour last month.

However, behind the complete agreement on political objectives and on the need for the strict application of international sanctions against Iraq, it is clear that both sides had to make concessions to achieve unity. Mr Gorbachev put his name to a text stating that, if current steps to bring Iraq to heel fail, "we are prepared to consider additional ones consistent with the UN Charter."

Use of force

What those additional steps would be is not specified. Mr Bush, like Mrs Margaret Thatcher in the Commons debate on the crisis last week, does not rule out the use of force in the last resort. They believe that article 51 of the UN Charter already gives them that legal right in the defence

of a country which has been the victim of aggression. Though they have not said so publicly, many of Mr Bush's advisers believe that the use of force will probably prove inevitable in the long run.

Political solution

In spite of subscribing to the possible adoption of "additional steps", the use of force is plainly not something that Mr Gorbachev is seriously contemplating. It would lead to unpredictable results, he said, emphasising much more strongly than the US President that the crisis could still be solved by political means.

The military option is therefore a continuing issue of disagreement and Mr Bush was right not to press the point in Helsinki for fear of spoiling the atmosphere of co-operation and support and giving comfort to Saddam. But it cannot be swept under the carpet for long and will surely have to reappear on the agenda of the next meeting between the two leaders, possibly as soon as the end of this month in New York.

Mr Gorbachev has been duly rewarded for his support with a promise by Mr Bush that he will recommend to Congress "the closest possible economic co-operation" with the Soviet Union, including, notably, the use of advanced technology for boosting Soviet oil production. Yet Mr Gorbachev must be aware that the cost of sending vast military forces to the Gulf will seriously restrict the US's capacity to grant economic aid to his country.

The Soviet leader also came away with an undertaking by Mr Bush that the US is ready to work together with the Soviet Union and "other countries" to develop a regional security structure in the Middle East once the Gulf crisis has been resolved. Vague as the wording of the statement might be, it is the farthest Washington has gone in agreeing to associate the Soviet Union with peace efforts in the region.

Mr Bush and Mr Gorbachev have not solved the crisis caused by Iraq's invasion of Kuwait. But their demonstration of continued superpower solidarity has boosted the chances that Iraq will ultimately be forced to back down.

Mrs Thatcher's
long haul

ONE side-effect of the crisis in the Gulf is likely to be the postponement of a decision on the date of the next British general election. There is no constitutional obligation to dissolve Parliament before June 1992, the principal concern of any British Prime Minister is to choose the most auspicious day from the governing party's point of view. This is rarely the last possible date, since hanging on during a time of unpopularity can provide ammunition for the Opposition. Voters have become accustomed to a four-year cycle, following the Conservative victories of 1983 and 1987. Mrs Margaret Thatcher herself might derive particular pleasure from a fourth triumph within the time-scale of the election, but there is little doubt of the positive impact on Tory fortunes of the arguments in favour of waiting until the spring of 1992 are becoming stronger.

First, the Gulf crisis is no Falklands war. The latter was a British military triumph, raising the nation behind Mrs Thatcher's previously untested leadership. The Conservatives might have won in 1983 without the impetus of the victory over General Galtieri, since the Labour opposition was at that time in disarray, but there is little doubt of the positive impact on Tory fortunes of the Falklands factor. There is no such factor in evidence today. The effort to dislodge Iraqi forces from Kuwait is American-led, with United Nations backing. Britain has a voice as one of the five permanent members of the Security Council, but its role is essentially subordinate. The political leader whose fortunes are most closely tied to the course of the war in the Gulf is President Bush, not Mrs Thatcher.

Labour better-placed

A second consideration is that the Labour party is stronger, and better-placed, than at any time since Mrs Thatcher became Tory leader. Mr Neil Kinnock continues to mature. Last week he twice exercised his now firmly-established mastery over the left - on Tuesday, when he addressed the Trades Union Congress in Blackpool, and on Thursday in the House of Commons. He sought to demonstrate in the

first speech that a Labour government would not be in thrall to the unions, and in the second that Britain's support for the US-led actions so far taken in the Gulf would have been as steadfast had he been Prime Minister himself. He was less verbose, and consequently more effective, than on similar occasions in the past. His attacks on the Government's economic performance, and especially on the "wasted eighties" are beginning to acquire a resonance familiar to those who remember the Wilson attacks on "13 wasted years" in the run-up to Labour's 1964 election victory. Since this year's opinion polls have consistently put Labour well ahead of the Conservatives, Mr Thatcher will have had little difficulty in convincing himself that he is a potential winner next time. His manner of conducting business has become in consequence more like that of an alternative Prime Minister.

Better times

The upshot is that the Tories depend more than ever on a return of economic optimism. The evidence of most past election campaigns suggests that if voters feel that a period of relative well-being lies ahead, they will support the government of the day. This "feel good factor" enabled the Conservatives to recover from mid-term troughs in 1983 and 1987. As Chancellor of the Exchequer, Mr John Major's task has been to arrange better times ahead of the next polling day in order to recover from the trough that was perhaps at its nadir in April, immediately after the introduction of the poll tax in England and Wales. A cut in interest rates, followed by lower mortgages, and best of all accompanied by a reduction in income tax, would at the least severely dent the Labour lead: achieved at the right time such a package could save the election for the Conservatives, however doubtful its merits on other than political grounds. The difficulty lies in finding the right time. Political fine-tuning may have seemed possible before the invasion of Kuwait; now, as with all other gambles in every kind of market, the prudent option is to wait and see.

South Africa's first black ruler will face a grim truth: that there are tougher problems to solve than apartheid.

For when racial segregation has gone and white supremacy is a thing of the past, the post-apartheid government will be left with a development burden of daunting proportions. Activists expect victory to yield immediate economic benefits: the Freedom Charter, the African National Congress's chief policy document, promises "houses, security and comfort" for all. It guarantees that "rest, leisure and recreation" shall be universal rights, not to mention plentiful food, low rents, free medical care, transport, roads, lighting, playing fields, creches, social centres... its bounty is unlimited.

But with the best will in the world - and the soundest economic policies - any new government looks doomed to frustrate these expectations. South Africa's undereducated population lacks the skills needed for economic revolution along Eastern lines. And over the next generation, the sheer weight of numbers will depress efforts at economic upliftment: by 2010, South Africa's 1980 population of 29.1m will have nearly doubled to 59.7m, according to recent research from the Urban Foundation, a business-funded policy institute. It is far from clear that the post-apartheid economy will be up to the task of housing, educating and employing nearly 60m people: black South Africans may find that life after apartheid remains a struggle.

The first post-apartheid government will inherit a country where, in the words of the authoritative Second Carnegie Inquiry into Poverty and Development in Southern Africa, published last year, "poverty is deep and widespread and... the degree of inequality is as great as in any other country in the world." For a nation as advanced as South Africa, the World Bank classifies it as an upper middle-income developing country - the extent of poverty is striking.

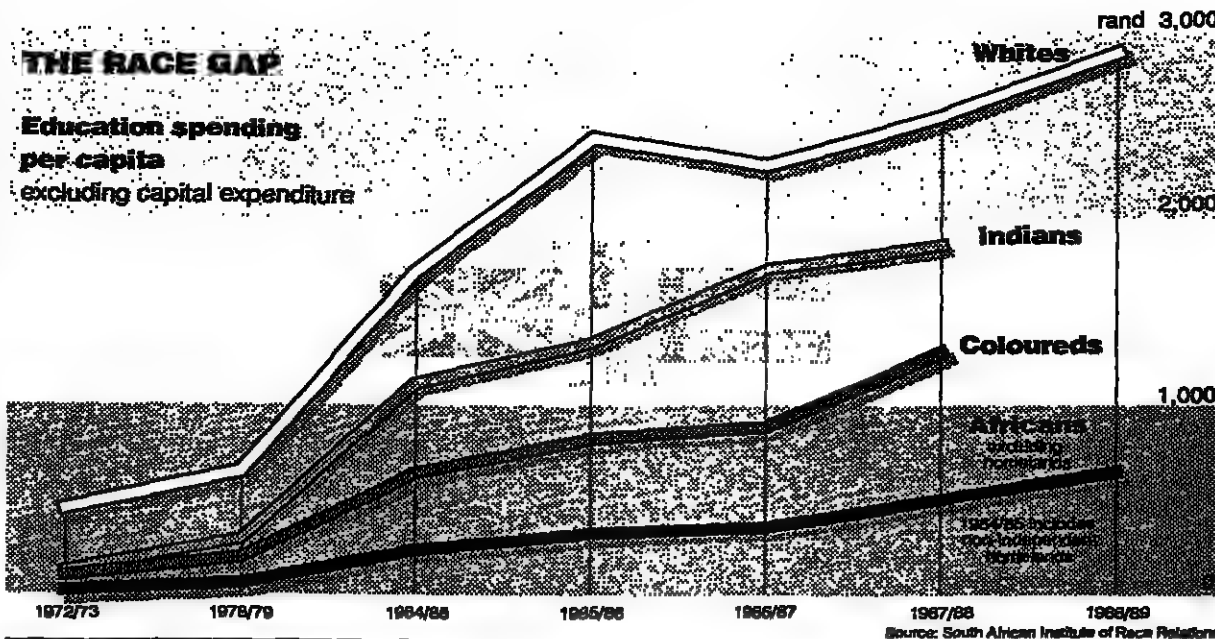
The charity Operation Hunger estimates that rural incomes average R50 (£10) a month, and that between a quarter and half of rural children are stunted by malnutrition. And according to the South African Institute of Race Relations, the majority of African households in many areas live below the "household subsistence level", an estimate of the cost of food, clothing, fuel, cleansing, rent and transport for an African family of six.

The gap between white and black incomes further emphasises black deprivation: according to the University of Stellenbosch, white personal income averaged nearly 10 times black income in 1987 (R13,242 against R1,393). And though black incomes have risen more than white incomes in recent years - from 1985 to 1987, the Bureau estimates white real incomes fell by 8.5 per cent while black incomes rose 5.4 per cent - whites still received 57 per cent of total personal income in 1987, though they made up only 14 per cent of the population.

Apartheid has ensured that state spending on social services is similarly skewed. Government spent R2,899 per capita educating whites in 1988-89, and only R656 on blacks (excluding capital expenditure). White pensions were set at 325t a month in the last budget, while blacks got only R180; health spending is equally distorted. And while whites are all at least decently housed - South African cities boast some of the most luxurious suburbs on earth - more than 7m non-whites live in shacks. By 2010, the Urban Foundation forecasts 30m new urban people in South African cities; housing, educating and heating them would be a strain even at current spending levels.

The cost of introducing parity between races in education, health and pensions, plus the cost of building

Pretoria's first black government will face huge problems in eliminating the disparities of racial segregation, writes Patti Waldmeir

After apartheid
comes the hard part

Cost of parity (R rand)			
The cost of introducing parity at white benefit levels and addressing the housing needs of the poor			
	1984/87 expenditure	Conservative estimate	Liberal estimate
Education	6,752	23,996	27,578
Social pensions	1,878	3,700	5,220
Health	4,020	6,031	8,021
Housing	1,023	1,711	3,506
TOTAL	13,673	35,428	44,325

Source: Economics Department, University of Stellenbosch

formal housing for the poor, has been estimated by Professor Servaas van der Berg of the University of Stellenbosch at between R35bn and R44bn per year in 1986 rand - more than the total national budget for that year. He calculates that at parity, South Africa would end up spending between 16.8 and 21.6 per cent of gross domestic product on education, against an average of 2.9 per cent for other upper middle income countries.

Abolishing the senseless duplications of apartheid would generate some savings: the new South Africa will not need 17 racially-based education departments, complete with Mercedes-driving ministers. Private sector research estimates between R10m and R20m could be saved in this way; but the cost of reorganisation might well consume that. Empty white classrooms could be used for blacks: white schools had 300,000 vacant places last year, against a black shortage of 160,000 (excluding homelands). But in general, savings from abolishing apartheid may be small.

Defence spending should fall, as a result of regional peace. But once again, the African experience is that the "peace bonus" tends to be small: the ANC may have some 10,000 former guerrillas to employ. Oil imports should be cheaper without sanctions; and South Africa will gain access to suspended World Bank and International Monetary Fund finance.

But the inevitable conclusion is the one drawn by Mr Simon Brand, chairman of the Development Bank of Southern Africa: "We don't have the resources for the kind of welfare state

we have been running for whites." The level of social provision promised by the ANC's Freedom Charter is simply out of the question.

Researcher Mr Charles Simkins of the Urban Foundation points out that "in aggregate terms, in a number of areas of social spending, we're not that far off international norms." The problem, he says, are the system's internal distortions: "that's what must be restructured."

Mr Simkins believes that, with pri-

SKILLS SHORTAGES (000s)		
Forecast of labour shortages (-) / unemployment (+)		
	1980	2000
High level manpower	-263	-226
Middle level manpower	+290	+3,416
Low level manpower	+3,232	+4,748
TOTAL	+3,259	+7,938

*Diploma or degree; **Secondary school certificate level; ***Up to 10 years schooling

Source: University of Stellenbosch

vate sector involvement, Government can keep its spending on housing subsidies to the current 2 per cent of budget. Pretoria would stop building family housing and concentrate on making sites available for a modest sum; banks and building societies would do the rest. That would inevitably mean a proliferation of shacks; but according to private sector research, the cost of providing what

black unions define as "decent" homes (R40,000 apiece) would be R10bn a year to 2000.

Education spending, set at 16.8 per cent of the last budget, also could not increase substantially. Even some ANC educationalists accept this: they propose a system whereby white schooling would largely be privatised, with nearly all state funding going to non-whites. Mr Simkins, on the other hand, believes the solution lies in restricting access to secondary and tertiary education: "the best will make it, the others will not have those educational opportunities," he proposes, adding that "as people rise through the educational system they must pay for more education."

Everyone agrees that the current system is in crisis: "The new government, whatever its shape, is going to inherit a mess in education," says Mr David Maepa, a Soweto member of the National Education Crisis Committee, an ANC-affiliate. Since Soweto school children rose up in 1976 against the use of Afrikaans as a teaching medium, schools have been the focus of the anti-apartheid struggle. A generation of urban children have had little or no schooling, and at the moment there is "literally no education taking place," says Mr Maepa.

Political disruption, coupled with rising pupil numbers, shortages and low morale among teachers, and poor facilities, has led to a high failure and drop-out rate. Some 88 per cent of candidates for last year's secondary school leaving examination failed, against 38 per cent in 1978; in Soweto last year, only 24 per cent passed.

Many blacks never reach the examination level: a quarter are believed to have had no schooling at all, while a further 40 per cent drop out before the fifth year. Half to 55 per cent of the adult black population is estimated to be functionally illiterate.

But simply spending more money on black education will not solve the problem. Spending has already risen sharply in recent years, with a further 26 per cent increase in the last budget: the gap between spending on whites and blacks has narrowed from 20:1 in 1972-73 to just over 4:1 in 1988-89.

Educationalists say that much money is wasted through corruption and inefficiency. But Mr Brian Whitaker, an executive director of the Urban Foundation, highlights an even more serious problem: "The economy can't absorb the people coming out of the education system and the education system can't produce the people the economy needs to grow. Business says the products of the education system are barely employable or trainable."

Statistics abound to illustrate the mismatch between education and employability. In 1988, some 80,000 holders of secondary school leaving certificates could not find jobs. Fact which demoralises younger brothers and sisters still at school. The chairman of South Africa's largest industrial group, Mr Mike Rosholt of Barlow Rand, pointed out in a recent speech that of 1,000 pupils entering primary school, only eight eventually qualify in science and technology at tertiary level and eight in commerce. He quotes the following comparisons: per 10,000 population in Japan, 58 will take a first degree in engineering against 31 in the US and only 0.4 in South Africa.

Many leading companies say money is not the only problem: they cannot give away scholarships for technical education. Mr Rosholt narrates the experience of one company, which he does not name, which interviews 500 matriculants (school leavers) a year, all of whom could qualify for company scholarships. So few are interested in technical careers that only 14 scholarships have been offered in the past three years.

He concludes: "The single most limiting factor in the full development of (South Africa's) economic potential lies in the endemic, and growing, shortage of skilled people at all levels, particularly in the technical field." Figures from the government's National Manpower Commission, illustrate the crisis: South Africa is expected to have a shortage of at least 225,000 professional and technical workers by 2000. South Africa, the world's leading mining nation, produces only 25 to 30 mining graduates a year, when it needs 100.

Unless that is done, though, it is difficult to see how the economy can grow rapidly enough to employ the millions of unskilled and semi-skilled workers who will come onto the market before the end of the century. The Commission projects unemployment among semi-unskilled workers at 8m by 2000. Informal sector employment will absorb some of them; but the problem remains huge.

Economists believe economic growth of more than 5 per cent a year is needed to keep pace with labour force growth. Yet in the 1980s, growth averaged only 1.8 per cent per annum; and with the economy in recession, South Africa may be lucky to average 1 per cent growth for the period 1990-92. Sustaining growth of 5 per cent or more a year after that could prove a tall order.

On the eve of the post-apartheid era, policy-makers seem undaunted. "It's a generation's work to get rid of mass poverty in South Africa, and two generations' work to get average living standards up to white levels now," says Mr Simkins of the Urban Foundation. South Africa will do well to achieve so much so soon.

The snarling
paper tigers

■ While waiting for a Gulf war to start, nearly 400 international journalists have started to write a different sort of war: US military's joint information bureau, which is ensconced in the Peninsula ballroom of the Dharan International hotel.

This account is straight from my correspondent sitting it out in the ballroom. Daily visitors to the American unit in the desert, she reports, can accommodate only a dozen journalists at a time. Competition for scarce hotel rooms, taxis, and information is equally keen.

When American congressmen showed up, to be filmed shaking hands with soldiers pouring oil transport carriers from the US, a fist fight broke out between two television crews on the tarmac.

"Animals, animals, the press are real animals," an army colonel said. "I've never seen such a mean bunch," said a US Air Force captain responsible for dealing with the press. "They lie and sneak on buses. Some of them even try to bribe you. They keep revealing military locations."

Some of the journalists, perhaps with good reason, accuse the US forces of favouring American and particularly Pentagon correspondents. Meanwhile, they accuse each other of such dirty tricks as scratching out names on posted lists and withholding information from pool trips.

The other evening a French photographer who had been passed over for a desert troop relieved his feelings by swearing at a US major. "Swear words don't sound any nicer with a French accent," one of the military press officers said, adding tartly: "The French send three boats to the Gulf and 50 journalists."

Another US officer was sanguine that coverage of hostilities will be a self-censoring affair. "I guess when the war starts a lot of journalists will

OBSERVER

leave and that will make things easier for us."

Agassi's game

■ Young Andre Agassi, the American tennis player, may not be everyone's cup of tea. "This obnoxious little show-off," wrote our tennis buff John Barrett, only last Saturday.

But Agassi, playing his way into the finals of the US open tennis championships at Flushing Meadow Park, is like Christmas coming early for Donny, the struggling Belsham tennis pundit.

Bernard Tapie, the French entrepreneur, bought control of the company from the receivers two years ago after it was declared bankrupt, and has been fighting to revive it since without much success. He took a long shot by choosing Agassi as a player with a future - and is giving him a reputed \$500,000 annual contract to endorse Donny racquets.

Just before the US open, the tennis business pundits were shaking their heads at Donny's rash investment. Agassi has proved them wrong - and Tapie and his general manager Guy Marchal triumphantly put for putting their money on him.

In terms of the oxygen of publicity the tennis trade seems to need these days, Agassi obliged early in the tournament by wearing black shorts and pink tights, spitting at the umpire, and using four-letter words.

But what a present it was for Donny when the young rip played good tennis as well and took himself right through to the final.

Donny's shares of the European and US tennis racquets markets have fallen in each to under 5 per cent. But after Flushing Meadow, Marchal's declared ambition to dominate



the world tennis racquet market within five years from now does not seem so impossible.

Model man

■ It was one of Jaguar's first big financial presentations in New York, following privatisation.

And one of its investor native sons was clearly impressed. "Gee, that guy's straight from central casting," said the New Yorker, fascinated by the figure on the podium.

He was referring to Graham Whitehead, now aged 62, the leading light of the National Association of Securities Dealers (NASD), the British-American Chamber of Commerce, and, until the end of this month, president of Jaguar Cars' operations in North America.

If Jaguar had been able to design and build a president to project the image it wants for its cars in North America, it would have come up with precisely the figure of Whitehead.

he remains most Americans' idea of the quintessential well-bred, sporting Englishman, moustached, quietly spoken, and with just a hint of rakishness.

Insiders at Jaguar insist that his departure is totally unconnected with the luxury car maker's takeover by Ford, and any culture clashes that may have arisen - even though Whitehead is following former chairman Sir John Egan out of the door.

Whitehead, with 45 years' service with Jaguar Cars and its predecessor British Leyland companies in North America, is reckoned to have been responsible for the sale of about 1m British cars.

His successor is a colleague, Mike Dale, Jaguar's US sales and marketing boss since 1973, who in just seven years Whitehead's junior. "Graham felt that if he hung on too long, Mike wouldn't get the crack at the presidency he deserves," says one executive.

Lot of bottle

■ The British Institute of In-keeping tells us in its latest newsletter that a "bottle held by the neck has historically been a weapon at times of stress and confrontation."

Many FT readers will have heard something of the sort; probably picked it up from their butlers who heard it discussed among the chaps in the four-ale bar.

Inkeepers are "increasingly alarmed at a trend" among their customers of drinking their beer straight from the bottle. The Institute had known as "drinking a label."

The institute warns publicans: "Such macho style could contribute to potentially troublesome incidents."

Duck now
■ Americans are musing over names for a future amalgamated Iraq-Kuwait state. A radio announcer has come up with "Irate." I prefer "Kuwaq".

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Ian Hamilton Fazey reports on the reversal of regional economic patterns in England

The north-south divide begins to close

Something strange is happening to Britain's north-south divide. Where people spent much of the 1980s agonising over a seemingly widening gap in wealth and potential between the struggling north of England and the prospering south-east, the roles appear to be reversing.

Last month the Confederation of British Industry published the first of a new series of inter-regional comparisons which for the first time in recent memory showed more industrial capacity at work in the north than the south.

What is more, the current economic slowdown in the south – unlike all previous occasions – has not automatically spilled over into the north-west, Yorkshire and Humberside and the north-east.

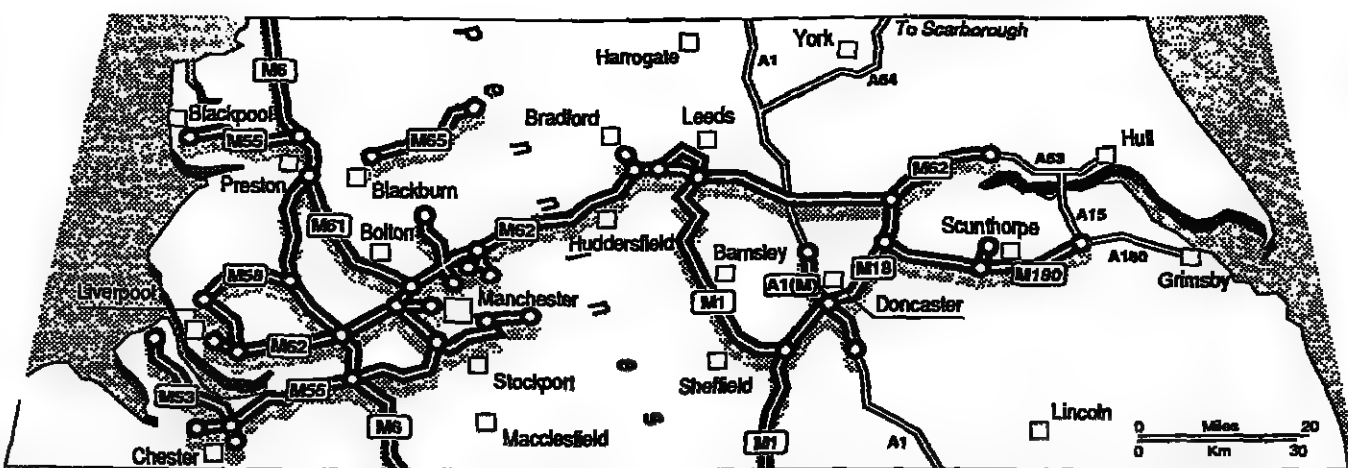
This is new. In the past, the temperature of the UK economy was regulated almost entirely by London and south-east England. Places such as Merseyside and Tyneside used to feel the glow from the south last and the drought of downturn first; the gaps between them widened progressively with each economic cycle.

Yet successive quarterly surveys by the regional chambers of commerce of northern England have shown that this old mechanism, while still evident, is nowhere near as powerful as it was.

The picture drawn has been of northern industry doing progressively more business each quarter, with more companies reporting rising levels of orders than falling ones, even in the most difficult areas. There has been some slowing lately, but there is still growth.

Moreover, Mr Simon Sperry, chief executive of Manchester Chamber of Commerce and Industry, says that his chamber's second quarter survey for this year showed a crucial difference between large businesses and smaller ones: those with a national spread of business, and much of it in the south, are doing less well than smaller ones selling mainly in northern regional markets.

Part of the reason is not hard to find. At consumer level, high interest rates have not had the same impact as in the south because mortgages are smaller. Wages have generally risen ahead of inflation, so that most northern people are still enjoying increases in net disposable income while enjoy-



Northern industry's progressively improving performance has been aided by the well-developed east-west transport infrastructure

ing lower costs than those in London. Indeed, in some parts of the north, house prices are still rising.

Mr Sperry says that a new dynamic has been at work in the latter half of the 1980s, with the survivors of the recession of 1980-82 doing well and new businesses working to better management standards.

"Because the recession hit our manufacturing base, we have done our restructuring," he says. "The new service-based economy of the south is only now beginning to experience the need."

At the same time, what new service industries there are in the north appear to have a firm customer base among successful business customers. Mr Peter Folkman, who runs North of England Ventures, a Manchester-based venture capital fund, says that a process of "import substitution" has been under way, particularly in financial and professional services.

These used to come from London, or the decision-making took place there. But even companies capitalised at £100m are small beer for London professionals these days. Indifferent service at too low a level in the capital created a demand from company chairmen for advice from experienced partners on their doorsteps.

The result has been a rapid growth of merchant banking, legal services, accountancy and venture and development capital funds in Manchester and Leeds, with thousands of jobs created for the sort of people who in the past would automatically have emigrated to London for their careers.

Indeed, Leeds is experiencing a noticeable flow of lawyers fleeing the London area for a better quality of life in Yorkshire. Taken together, these factors have swelled and fortified an already prosperous middle-class with a stake in regional success – an essential ingredient of long-term economic growth.

Northern cities are also beginning to "export" professional services back to the south. Even though commercial office rents everywhere in

The Channel Tunnel is seen as an irrelevance by both North Sea Ferries and Associated British Ports

the north have risen from 25 per sq ft five years ago towards £15-plus today, the comparison is with £40 or more in London. Lower northern overheads enable professionals to charge lower fees. Some have even been able to undercut London prices in the capital itself, while others have been able to use modern electronic links to offer cheaper "back office" functions in the north to large southern-based companies.

This is showing up in sectors such as banking, legal services and specialised accountancy work. Similarly, British Airways has established a large ticketing centre on Tyneside and British Telecom has set up a directory enquiries service for London in County Durham. Royal Insurance has been able to create large numbers of new white collar jobs in Liverpool, its home town.

A strong sense of regional

local markets has blossomed. It was in St Helens, Merseyside, that the enterprise agency movement had its birth in 1978. The first agency established the principle that what would be entrepreneurs need most is easy access to a combination of working capital and advice; supplies of both have steadily improved ever since.

Some areas in the north have, however, done better than others, and to assess whether all this can last it is important to understand why. A study produced three years ago by Mr Folkman and Mr Robert Toomey of St's Liverpool office found that the best breeding grounds for successful small business leaders are medium-sized companies where managements control their own fate. People at supervisory level learn techniques that equip them to start businesses themselves, and thus

increase the stock and variety of local businesses and jobs. The parts of the north with the widest variety of industry and commerce and the best spread of companies with up to about 200 employees are Greater Manchester and West Yorkshire. If Mr Folkman and Mr Toomey are right, these counties should be economically strongest. Their chambers' surveys suggest they are.

The other important part of the equation is infrastructure, particularly the M62 motorway and the network of other motorways and major roads associated with it. Various links were completed only in the mid-1980s and there are still some missing, but the picture is of strong east-west links of motorway standard.

In the west, motorways run from Chester, Wirral, Liverpool, Preston and Blackpool, through Greater Manchester and West Yorkshire, to the Humber ports. Scotland, the north-east, and South and North Yorkshire, also feed in. All this means that the ports of Hull, Grimsby, Immingham, and Goole – and 40 wharves in the rivers Humber, Trent or Ouse – are now within four hours' drive of 40m people. With the growing importance of European markets, this means that if the northern economy really has successfully restructured itself, this should have started to improve the ports' own performance.

Early indications are that it has done so. There was a 25 per cent increase in cargoes through the Humber ports in the latter half of the 1980s so that by 1989 they accounted for 16 per cent of UK sea trade.

Moreover, the largest operators there say that all new capacity is being filled virtually as soon as it is provided. Three years ago, for example, North Sea Ferries – a joint venture between P&O of Britain and Nedlloyd of the Netherlands – upgraded its existing services with £100m of investment.

It bought two new ships for the Rotterdam route and stretched two existing ones for Zeebrugge. Both crossings have been turned into 12-hour, overnight mini-cruises.

"As a result, we have had an increase of 96 per cent in traffic in the last four years," Mr Jim Pybus, the company's spokesman says. About 1m passengers will be carried this year, while demand from freight carriers has encouraged additional freight-only services on the routes too.

The conclusion can only be that people and shippers in northern, Scottish, and East Midlands markets are voting with their wheels for the Humber's links to Europe, avoiding the M1's traffic jams and the struggle to cross London.

Following abolition last year of the National Dock Labour Scheme, which removed restrictive trades union practices in all ports, Associated British Ports, which owns most of the facilities, says that growth is accelerating.

The Channel Tunnel is seen as an irrelevance by both North Sea Ferries and ABP – a view supported by many of their customers. It will only handle 15m tonnes a year of freight when it opens. The Humber ports are heading for 80m tonnes this year.

The picture then is bright, notwithstanding hard-to-budge concentrations of 30 per cent male unemployment in the peripheral areas of Merseyside, Teesside and Tyneside. The problems are structural: there are still too few industries and too low a proportion of small businesses. No one expects to solve this within a generation, but those with skills and jobs are usually doing well.

The test will be how well the central, transpennine economic engines of Greater Manchester and West Yorkshire can carry the rest of the north if the Gulf crisis causes a wider or deeper downturn. Given the way the north has been withstanding domestic pressures, they have been doing fairly well so far.

LOMBARD

How to buy out the 'Nimbies'

By Samuel Brittan

Mr Nicholas Ridley once said something more memorable about his fellow countrymen when Secretary of State for the Environment than anything he has more recently said about the Germans. Criticising the way in which so many British citizens wanted economic development everywhere except where they lived, he coined the expression "Nimby", which stands for "Not in my back yard."

Indeed, Nimbyism is probably the best one-word description of all the British attitudes which make the country so difficult to adapt to the end of the 20th century – why, for instance, towns and cities in northern France compete for rail and building projects associated with the Channel Tunnel, while places in England fight to have them?

No explanation of the unexpected inflationary burst of the second half of the 1980s is complete without taking into account the extraordinary increase in house prices, which took the value of the housing stock to nearly £1,000bn or three times personal disposable incomes. Macroeconomists can nitpick over whether the main effect was on inflation, unemployment, interest rates, regional disparities or a mixture of all; but it certainly produced large distortions. There is a legitimate worry that the next economic upturn will be clouded in a similar way.

Three main culprits have been blamed for the distortions in Britain's property, and especially residential, markets. ● Fiscal subsidies for owner-occupiers, including not only mortgage interest relief but the exemption from capital gains tax on their homes, irrespective of whether they move or stay.

The finance for these buy-outs would come from the cash sale of planning permission for good clean money – instead of the promises to finance favoured local authority projects which are more usually demanded. A spot of good clean money instead of bad dirty power could work wonders in providing incentives for a change in attitudes.

Analysts on the radical right have concentrated on rent controls, while those on the radical centre and left on fiscal privileges of owner-occupiers.

The third syndrome has all too often been passed over in embarrassed silence.

But quantitatively Nimbyism is almost certainly the most important and long-lasting distortion. One indication is that land now accounts for 40 per cent of the cost of a typical new house in the south-east compared with less than 20 per cent two decades ago. The damage is not confined to housing as such. It takes 10 years from the design of a mile of motorway to its actual construction largely because of the time taken by planning and appeals.

It is, therefore, encouraging that a former government adviser, Richard Ehrman, should have tackled the Nimby problem head-on in a pamphlet published by the Centre for Policy Studies. Mr Ehrman accepts that Nimbyism reflects the eyesore quality of so much new development. He suggests that developers should be invited to compete for planning permission for small towns and villages, with designs taken into account in the award. He also reminds us that large parts of the so-called green belt, especially near motorways, are really "brown land" which would actually benefit from development.

The root of Nimbyism is surely, however, the effect on existing property values of new planning permission. This would be tackled by Mr Ehrman's most novel proposal: that those adversely affected by a new road, railway or urban development should not merely be fully compensated – which they are not always at present – but receive a disturbance payment of 10 to 30 per cent above the present value of their homes, irrespective of whether they move or stay.

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LETTERS

TECs are worth it

From Mr W. Stanley Jones.
Sir, There seems to be a pervasive view that all Training and Enterprise Councils (TECs) directors complain to the UK Government of a shortage of funds and do little else. Not so.

The objective of creating TECs with private businessmen on the boards was to use their management acumen – which certainly extends further than their skill at obtaining government grants.

The present furor over funding is based on a comparison of the costs of continuing to meet existing services, which might or might not be appropriate in the medium to long term.

There are various problems facing TECs at present including, *inter alia*, cutting through the middlemen to determine real need; organising TEC staff, given the present unique reporting structures; and commissioning new computer-based systems.

Private businessmen on TEC boards will contribute greatly to the future achievements of TECs and will cause the improvement process to be accelerated.

Generally the business community will support TECs increasingly when they see the results which will be achieved. Now is no time for faint-heartedness or backsliding – all need better-trained people and the TECs will contribute significantly to providing them.

W. Stanley Jones,
NEI Control Systems,
Kingsway Team Valley,
Gateshead,
Tyne and Wear

Eureka

From Mr Othar Amilakvari.
Sir, Mr Bernard Keffe complains (Letters, September 3) about the ludicrously slow process and high charges of transferring small amounts of foreign currency by bank draft. I have discovered something: the Post Office (at least in France) will do it, quickly, for an insignificant fee. The only trouble is the queuing at the counter. How about the British Post Office?
Othar Amilakvari,
75 quai André Citroën,
75015 Paris, France

What should be done about BT shares?

From Mr B.S. Pearson.
Sir, May I add to Lex's comments about the rumoured sale of the UK Government's shares in BT (August 21)?

The leading item on most people's hidden agendas for the duopoly review is: "What to do about BT, given that things cannot carry on as they are?" The manner and timing of the sale of the Government's shares in BT cannot sensibly be disengaged from the overriding necessity to reform BT. Selling the shares simply to raise money for the UK Exchequer or to thwart any plans for re-nationalisation would be quite unacceptable.

The wise disposal of the Gov-

ernment's shareholding is the key to unlocking BT's potential, which in my view will be achieved only by remedial surgery. I am discounting the present reorganisation, Project Sovereign, as an exercise aimed primarily at making BT proof against disaggregation. It also appears to be an exercise in appearing to control over the business with the reintroduction of a power structure and a corporate book reminiscent of the old General Post Office in its days as a department of state.

It is important that the share sale be part and parcel of a coherent restructuring of BT

either by government, or by an industrial catalyst.

There is also the question of limitations on share ownership. The one potentially effective sanction against the incumbent management of BT is the Government's 48.7 per cent holding.

To sell these shares without removing the 16 per cent limitation on shareholding would be quite undesirable, for it would leave the BT board in an intolerably privileged position – immune from takeover under English law, and effectively with jobs for life.

Bryan Pearson,
PO Box 2,
Umbrellagh, Devon

Oiling the arguments for accountants

From Mr David C. Damant.

Sir, In view of the fact that inflation persists, a reconsideration of current cost accounting (CCA) is certainly essential. But I hope that Professor Myddelton's advocacy of price level accounting, constant purchasing power (CPP) will be set aside.

It is no use adjusting the past unless the figures produced are useful in judging the future. Historic cost figures are not enough, but figures adjusted not for the assets' own price movements but for an average are even worse.

The whole matter is clearly seen in the case of the price of oil. Historic cost profits for the oil companies are somewhat

misleading in view of the fluctuations in the price of their stocks of oil; but if the oil stocks had been adjusted in recent years for the average rate of inflation there would be a gradual appreciation – which is clearly nonsense. Only an adjustment to replacement cost – which the companies are now arguing in the context of the discussion of their petrol pump prices – can show reality.

David Damant,
Paribas Asset Management,
68 Lombard Street, EC3

From Mr Douglas Dale.
Sir, Professor Myddelton (Letters, September 6) is absolutely right. Will the new

accounting standards body issue PSSAP 7 (CPP) as a substantive standard – "like tomorrow?"

We do not want another 17 years of "consultation" during which company profits are overstated, physical assets undervalued and return on capital thus doubly overstated.

These misleading figures (giving anything but a "true and fair view" of a company's performance) have caused businesses to pay more dividends than they should, more tax than they should and more wages than they should.

Douglas Dale,
97 Hildersstone Road,
Meir Heath, Stoke-on-Trent,
Staffordshire

Accountancy across international borders

From Mr Ted Harding.

Sir, Philip Shirley's call for an outside investigation into the state of the accountancy profession (August 16) is welcome amid the continuing agglomerative trends among accounting firms.

While he identifies the anti-competitive tendencies of the big networks, there are other disturbing practices engaged in by the important firms.

While medium-sized and small firms find it increasingly difficult to compete with the large organisations, competition is further impaired by the restrictions imposed on firms by the international networks of which they are members.

For example, the mechanism whereby the national member firm in an international grouping is granted exclusive rights to a particular territory.

The national firm in networks such as KPMG, Spicer & Oppenheim or BDO Binder will usually practice within its domestic market. Thus accountants are frozen unnaturally within their national borders.

Therefore, professionals in Denmark and Sweden must leave the larger and more lucrative markets in Germany, France and the UK to their "partners" in those countries.

In reality the "international firms" are not unified economic entities, but rather groupings of national firms that have consented to trade under common names and rules, while not encroaching on each other's territories.

Member firms and offices of Deloitte Haskins and Sells, Touche Ross, Ernst & Whinney and Arthur Young elected to opt out of recent mergers. In

July, Spicer & Oppenheim left its international network to join Touche Ross.

Differing practice rights and qualifications throughout the EC complicate matters. However, the anti-competitive practices operated by firms between the UK and Ireland give an insight into the approach of the international networks. Irish chartered accountants are permitted to carry out company audits in the UK and vice versa, but this does not occur in practice.

This negates the idea of the EC single market. The Community's founders hardly intended France to be reserved for French accountants and Germany for Germans.

Ted Harding,
The Accountant,
Pearse Street,
Dublin, Republic of Ireland

PROJECT TRIDENT

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Last year, Project Trident found jobs for over 100,000 young people ...

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But what about next year?

PROJECT TRIDENT was founded over twenty years ago with the aim of helping young people gain a better start in life. A programme of work experience and complementary projects designed to encourage the social and personal development of youngsters has proved a solid and successful formula through the 70s and 80s.

PROJECT TRIDENT has witnessed substantial economic and social change over the last twenty years and it has continually adapted to meet new requirements. If its success is to last, it must continue to expand and adjust, to offer the youngsters of the 90s even greater opportunities than the young people of the last two decades.

To give help, we need help. We need strong support from industry both in the form of seconded management – the people who bring their expertise and experience to set up, administer and expand Trident projects – and in terms of hard finance.

Project Trident asks for action from industry. Please give your support by contacting us at Project Trident.

W.P. Bowman
W.P. Bowman O.B.E.
Chairman

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INSIDE

Out from under its founders shadow

Brierley Investments, founded 23 years ago by New Zealand entrepreneur Sir Ron Brierley (left), is at last coming out of the shadow of its founder. Last week in London Mr Paul Collins, chief executive talked about the group's strategy - and about its plans for its 20 per cent stake in Vickers. Andrew Bolger reports. Page 18

Undercurrent at Rhône-Poulenc

Shares in Rhône-Poulenc, the French chemicals company, have been far harder hit this year than those of its European competitors - even though its results are certainly no worse. Will Dawkins explores the reasons for the underperformance. Page 19

Alternative route to financing unity

The West German government has issued around DM3bn worth of promissory notes for the German Unity Fund (GUF) during the past few weeks. This is the first time since 1984 that such notes have been issued. The borrowing is in addition to DM9bn raised for the GUF through public bond issues. The existence of the additional funding route explains the Finance Ministry's relative equanimity about the failure last week of the first public auction of unity bonds. David Marsh reports. Page 18

Question mark over Canadian deal for British Gas

The election of a left-leaning provincial government in Ontario last week has put a question mark over British Gas's proposed C\$1.1bn takeover of Consumers' Gas, Canada's biggest natural gas distributor. Concern that the incoming New Democratic Party government might not approve the deal or impose unacceptably stringent conditions on Briggs, pushed Consumers' share price down by almost 10 per cent on the Toronto stock exchange on Friday, writes Bernard Siman from Toronto. Page 18

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RMC moves to buy E German cement group

By Andrew Taylor in London

RMC, THE UK group which is the world's biggest producer of ready mixed concrete, is understood to be negotiating to buy the Rittersdorf cement group which owns a large works to the east of Berlin.

It is the second time in less than six months that a leading European building materials group has moved to gain a large slice of the East German cement market.

In July, Lafarge Coppee, of France, took over the management of Rittersdorf, East Germany's largest cement manufacturer which has about 35 per cent of its domestic market.

The French group, the world's second biggest cement producer behind Holderbank of Switzerland, is negotiating to purchase Rittersdorf. An independent valuation is expected to be set by the end of this year.

The East German cement market is forecast to grow strongly over the next few years, as public and private investment in infrastructure increases.

Rittersdorf, according to rival European cement manufacturers, has the capacity to produce more than 2m tonnes of cement a year. This compares with the capacity at Rittersdorf of about 6m tonnes, although Rittersdorf last year produced only 4m tonnes.

Mr Bertrand Collomb, Lafarge Group chairman, said an efficient Western cement works could have produced the same amount of cement with about a quarter of Rittersdorf's workforce of 3,000. Lafarge, however, was not planning any immediate drastic lay-offs at the East German cement manufacturer.

The proposed unification of the two Germanys, together with other political changes in Eastern Europe and the start of the single European market in 1992, has led to a sharp increase in cross-border joint ventures and acquisitions involving European building materials companies.

Last week Redland, the British building materials group, acquired Shielded the largest manufacturer of prefabricated chimneys in West Germany for DM50m (£30m). More than a quarter of Redland's profits are expected to come this year from Germany, where it manufactures roof tiles in East and West Germany.

Other cross-border deals since June include a joint venture between Lafarge and Redland to create Europe's second biggest plasterboard company and BPF of Britain purchasing the plaster and gypsum interest of Poliet of France.

European film venture to tackle US dominance

By Raymond Sneddy in London

FILM PRODUCTION and distribution groups from five European countries will today create Eurotrustees, a new company designed to challenge American film dominance in Europe.

Apart from helping to finance European productions the five companies will, in effect, create the first European "major" able to acquire European distribution rights to films made by independent US producers. Eurotrustees will also distribute films by European film producers throughout the continent.

The producer-distributors expected to sign Eurotrustees into formal existence at a meeting at the Venice Film Festival today are: BAC Films of France, ERRE Produzioni di Italy, Iberamericana Films of Spain, the Palace Group from the UK and Telemunchen of West Germany.

European film market on a pan-European scale.

The Eurotrustees concept has been developed by Pierson, Heiding & Pierson, the Dutch merchant bank, with the support of Guinness Mahon the UK merchant bank.

Apart from initial bank loan finance to get Eurotrustees going the aim is to raise between \$10m and \$15m in equity finance from industrial investors interested in getting into the expanding market for "entertainment software". Mr Alexander Gelderman, director of commercial banking and film finance at Pierson said: "We are going to try to buy film rights for the whole of Europe and when you can do that you can get a discount."

Pain beyond the petrol pumps

Richard Gourlay on the effects of losing Kuwait's refining capacity

THE weekend's gasoline price rises will hurt a lot of businesses and there is more pain to come. The chemical industry, transport companies and consumers of heating oil are all set to suffer - and sooner than might have been thought.

However, it is not the shortage of crude oil but a shortage of refinery capacity which is at the centre of the problem. While crude oil prices have risen by about \$12 a barrel since Iraq invaded Kuwait on August 2, analysts believe the 4m b/d of lost production from these countries should more or less be replaced by increased output from Opec and other producers.

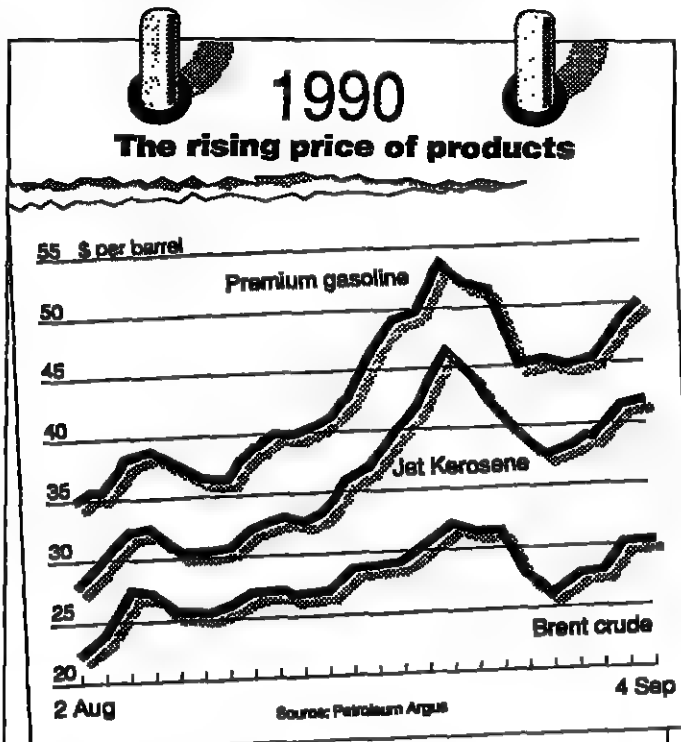
It is petroleum product prices - jet fuel, the chemical industry feedstock naphtha, heating oil and the most politically sensitive product, gasoline - that are beginning to show the effects of a severe squeeze not entirely resulting from the Gulf crisis.

Before the Iraqi invasion the world's crude oil refineries were already working close to full capacity for the first time in almost a decade.

There is, therefore, no obvious way to replace the 750,000 b/d of product exports lost from Iraq and Kuwait's three export refineries and the 200,000 b/d of exports diverted from Saudi Arabia and Bahrain to fuel US military aircraft. Add additional US military demand and in Saudi and Kuwaiti refineries in Saudi Arabia have been lost from the market, analysts say.

This squeeze has been exacerbated because Kuwait's refineries were highly sophisticated with technology that allowed more high value products to be produced from crude oil. In addition to basic gasoline, Kuwait has invested heavily in high technology processes in order to feed downstream marketing operations in Europe and the huge feedstock demand east of Suez, notably in Japan.

Such replacement capacity as there is, in Italy and Japan for example, is much less sophisticated. Furthermore, the crude oils that will replace the lost output, with the exception of that from



Nigeria, are significantly heavier than those from Kuwait and Iraq, according to Mr Dennis Eklof of Cambridge Energy Research. Heavier crudes refined in less sophisticated refineries will produce more fuel oil and less gasoline, naphtha and jet fuel.

These pressures have already shown up in a doubling of naphtha and kerosene prices in the Far East, while in Europe gasoline two weeks ago reached an all time high even though crude prices were only half their 1989 record levels.

Another manifestation of the tighter products market is the growth in refinery margins, the difference between the value of the product and the cost of crude. Last year refinery margins in Europe averaged \$1.5 to \$3 a barrel.

But since the start of August they have risen as high as \$6, according to Mr Philip Morgan of

Laing and Cruikshank. In Singapore margins have been as high as around \$8.

These relative price rises, however, constantly changing and some traders last week said refinery throughput in Europe was falling because margins were declining again. This would suggest another reason for more product price rises.

The loss of middle eastern oil has so far been felt more in markets east of Suez than in Europe and the US.

Analysts estimate Asia has lost more than 600,000 b/d and India and Pakistan are likely to be particularly badly hit. The annual build up of heating oil stocks in Japan and Korea, ahead of winter, is likely to keep prices in the Far East higher than in Europe and the US.

In normal times price differences between these markets would not persist as the low cost of transport relative to the value

of the cargo would open arbitrage opportunities that would close the gap. But these are not normal times and normal price relationships have not been maintained. West Texas Intermediate, the benchmark crude in the US, for instance, normally trades at a premium to Brent. But this relationship has now reversed and products that normally flow from Europe to the US market are travelling the other way across the Atlantic.

Analysts say this reflects the physical shortage of products from the top end of the barrel in Europe.

Similar physical shortages will emerge later, perhaps towards the second half of September, in the US, because the 42-day Gulf to US east coast shipping time - versus the 30 day journey to Rotterdam - means product shipped before the Iraqi invasion has only recently stopped arriving.

There is some relief for product prices on the horizon. Mr Eklof believes some 500,000 b/d of moth-balled refinery capacity could be reinstated relatively quickly, notably in Italy and Japan. Refiners could postpone some maintenance programmes and in the US, at least, there is talk of relaxing the octane restrictions on gasoline to make the barrel of crude go further.

By definition, however, any recommissioned refineries would have been closed in the first place because they were inefficient.

Furthermore, there are ominous signs in the US, where figures become available soonest, that companies are stocking early for winter. In the four weeks to August 24, demand for products rose 6 per cent, whereas in previous months it fell 2 per cent relative to the year before.

As the Gulf crisis slips towards a war of attrition and the winter approaches, analysts say all the signs point towards higher raw material costs for industry and more gasoline price rises. "We are in a short-term crisis for which there are only long-term solutions," says Mr Eklof. "We can not make new refining capacity so the thing we have to do is curtail consumption."

GEC likely to look abroad for non-executive directors

By Andrew Hill in London

GENERAL Electric Company, the UK electronics and defence group, is looking to appoint new non-executive directors following the departure of three board members at last week's annual general meeting.

GEC could announce the new board appointments towards the end of this month. It seems likely that it will seek to balance its directors' UK experience with

representation from continental Europe, where GEC is part of a number of large joint ventures with, among others, Matra and Alstom of France.

Sir Kenneth Bond, the group's vice chairman, Professor Edward Hall and Mr Ross Johnson all decided not to stand for re-election last Friday.

At the AGM, Lord Prior, GEC's chairman, said new non-executive directors from mainland Europe may be appointed.

Before the AGM, GEC had 20 directors, eight of them non-executives. The board is headed by Lord Weinstock, the group's managing director. Mr Malcolm Bates, deputy managing director, and Mr David Newlands, who was appointed finance director last year. The other executives are Sir Robert Davidson, who is

vice chairman and chief executive of GEC Alstom, Mr Douglas Gadd, Mr Michael Lester, Mr Ian MacBean, Mr Sam Morrison, Mr David Powell, Mr Simon Weinstock and Mr Rhys Williams.

The remaining non-executive directors are the group's vice chairman Sir Ronald Grierson, Lord Catto, Mr Sebastian de Ferranti, Lord Rees-Mogg and Mr Derek Roberts.

Economics Notebook

Protectionism hovers in the wings

Peter Norman on the threat to international solidarity in the Gulf

THE international community's reaction to the Iraqi invasion of Kuwait has so far been one of impressive solidarity.

But will this solidarity extend to economic and trade policies if higher oil prices begin to have a perceptible impact on global economic activity?

Economists agree that the jump in oil prices to around \$30 a barrel from \$16 before the outbreak of the Middle East crisis does not threaten the world economy to the same extent as the oil crises of 1973 and 1979. There are, however, fears that a protracted conflict affecting growth and employment could further encourage protectionism.

Past oil crises have boosted protectionism in international trade and posed challenges to the application of economic liberalism in domestic economic policy making.

Protectionist pressures have remained strong, although, since the early 1980s, the world has enjoyed one of the longest periods of economic growth since the Second World War. Protectionism and dirigisme have persisted alongside such momentous events as last year's eclipse of Communism in eastern Europe, which appeared to signify a triumph of liberal ideas over interventionism.

Last week's television pictures of French farmers hijacking British sheep lorries were a reminder of how strong protectionist pressures can be at the local level. The lack of movement on liberalising agricultural trade since the lengthy and difficult discussions about farm subsidies at this year's Houston Economic Summit shows how even heads of government have limited powers to ease frictions among nations

which agree so much else. According to Mr David Henderson, who heads the economics and statistics department of the Paris-based Organisation for Economic Cooperation and Development, interventionist elements have had the upper hand in the trade regimes of OECD countries during the past 15 to 20 years.

Writing in a personal rather than an OECD capacity, he recently completed a thoughtful paper on the past and future evolution of the world trading system that will be published in a book of essays by economists in honour of former OECD economist Kjell Andersen early next year. "There has been no dramatic change to record," he writes.

French farmers hijacking British sheep lorries last week shows how strong are protectionist pressures at a local level

"But whereas up to the early 1970s there was a clear though fiftieth trend towards liberalisation, the broad direction of change since then has been in the opposite direction. This can be seen both in national policies and in the character of the trading system as a whole," Mr Henderson now worries that nations may adopt more dirigiste economic policies at home if the situation on international oil markets deteriorates.

There are some discouraging precedents of governments adopting unrealistic and unworkable energy policies after the oil crises of 1973 and 1979. One such ill fated effort was Project Independence, launched by President Richard Nixon in November 1973. This set as a national goal developing the potential to meet the

US's "own energy needs without depending on any foreign sources" by the end of the 1970s.

In 1980, the Canadian government adopted a comprehensive national energy programme which sought to establish the basis for Canadians to seize control of their own energy future through security of supply and ultimate independence of the world market. "Like Project Independence, the Canadian plan ended in failure."

The average motorist, faced with daily increases in pump prices, might find such autarkic ideas initially attractive. But Mr Henderson points out that such interference with market forces risks being very

costly. A new bout of dirigisme would also undermine the liberal non-discriminatory tendencies in national economic policy making that have struggled - with some success - to assert themselves during the past 10 years.

Market-oriented efforts to reduce rigidities such as industrial subsidies, restrictive practices in the workplace and state involvement in the economy have helped stimulate economic growth in many industrialised and some developing countries and offset protectionism in trade.

These advances could be jeopardised if domestic economic policies were now to move into step with restrictive trade policies. Such a development would also darken the horizon of millions of people in eastern Europe and the devel-

oping world who have placed their hopes for a better future in the market economy.

Kept Guessing

Mr John Major's radio interview last Friday in which he ruled out British entry into the Exchange Rate Mechanism of the European Monetary System over the past weekend, has left the financial markets no wiser as to when Britain will become a full EMS member.

Although he said the inflation gap between the UK and its EMS partners was the main economic condition standing in the way of British membership of the ERM, he also made clear his judgement would play a key role in determining the timing of entry.

The Chancellor's ability to keep everybody guessing is highlighted by the way in which he has never specified what measure of inflation will be used to determine whether the UK rate is "proximate" to that of the UK's EC partners.

The confusion is reflected in the City. Over the weekend, the economics team at Goldman Sachs calculated that the inflation gap between the underlying UK rate and inflation in the ERM countries should have peaked in August at 3.4 per cent, will decline to 3 per cent in October and hover at 3.1 per cent in the last two months of the year. Goldman Sachs still expects UK entry into the ERM this year.

Hoare Govett poised for a buy-out by management

By David Barchard in London

HOARE GOVETT, the City of London stockbroker bought by Security Pacific of the US at the time of Big Bang, is poised to announce a management buy-out early this week.

A team from Hoare Govett, under Mr Peter Meinerzhagen, head of corporate finance, has been negotiating for several months to buy 51 per cent of the company. The balance of the stock not immediately taken up in the buy-out will be held in an employee share ownership scheme which is already in place.

The US bank would be left holding a 49 per cent stake in the broker and would therefore be able to benefit should Hoare Govett's trading performance improve following its move to independence.

Any such income would help offset the heavy investment Security Pacific made in Hoare Govett around the time of Big Bang.

However, proceeds from the sale would be unlikely to go very far towards recovering the \$15m which Security Pacific is believed to have paid for the UK broker.

Meanwhile, Mr Christopher Castleman, chairman of National Investment Group (NIG), the large regional broking chain, yesterday declined to comment on reports that he is negotiating a merger with City broking company Capel Cure Myers.

National Investment Group was set up in 1986 when seven regional stockbrokers merged to meet the challenges of Big Bang.

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COMPANIES AND FINANCE

Question mark over British Gas Canadian deal

By Bernard Simon in Toronto

LAST WEEK'S election of a left-leaning provincial government in Ontario has put a question mark over British Gas's proposed \$1.1bn takeover of Consumers' Gas, Canada's biggest natural gas distributor.

Concern that the incoming New Democratic Party government might not approve the deal or impose unacceptably stringent conditions on British Gas, pushed Consumers' share price down by almost 10 per cent on the Toronto stock exchange on Friday.

Consumers closed at C\$28.87, well below Britgas's offer of C\$34 a share.

The Britgas deal still requires the consent both of the Ontario provincial government and the federal authorities.

The Ontario Energy Board held exhaustive hearings into the proposed takeover during the summer, and is preparing a report for the provincial government.

While the board's staff sup-

ported the takeover, the NDP has generally been hostile towards big foreign takeovers in key sectors of the economy. The party made no specific commitments on the Britgas deal however, and may allow it to proceed rather than run the risk of severely damaging foreign investors' confidence.

Neither Britgas nor Consumers' present controlling shareholders, GW Utilities, have so far commented on the implications of the NDP's surprise election win. A Britgas spokesman in Toronto said: "We are not going to prejudge what the new government's attitude would be."

Share prices of other companies which may be vulnerable to the NDP's interventionist platform also fell sharply on the TSE last Friday. They included banks and real estate and construction companies, which could be hardest hit respectively by proposals for a minimum corporate tax and a special tax on property speculation.

Spurs under pressure on possible Maxwell bid

By Andrew Hill

TOTTENHAM HOTSPUR, the quoted leisure group which owns the famous London football club, is likely to come under pressure today to clear up speculation that Mr Robert Maxwell is negotiating a deal which could give him control of the company.

Neither the publisher nor the company were available yesterday to comment on the widespread rumours, but such a deal would be a remarkable U-turn even for the mercurial Mr Maxwell. Only 10 days ago, he announced he wanted to end his financial interest in soccer and put his football club stakes up for sale.

Mr Maxwell controls first division Derby County and his son Kevin heads the second division club Oxford United. The publisher also has stakes in Manchester United and Reading.

Any plan which gave Mr Maxwell more than 30 per cent of Spurs' equity - either through the purchase of shares or the underwriting of a rights issue - would precipitate a full bid for the company. The publisher would also run up against Football League rules which prevent any investor controlling two clubs at once.

Spurs' largest shareholders are Mr Irving Scholar, the club chairman, who owns 25 per cent, company chairman Mr Paul Boffroy with about 11 per cent and Mr Tony Berry, the ex-chairman of the Blue Arrow employment agency, who owns some 8 per cent.

CU acquires 4.9% Levitt Group stake

Commercial Union, the large composite insurer, has paid \$7.25m for a 4.9 per cent stake in the Levitt Group, the independent financial adviser.

part of the restructuring of the ownership of the Le. The deal is part of a general restructuring of the ownership of the Levitt Group, following the repurchase of a 33 per cent stake in LEVITT held by LIT.

Chase Manhattan General Accident, and Legal & General have already purchased 4.9 per cent stakes in Levitt. The present deal is likely to be the last placement with a large insurance group.

Mr Harris Raphael, Levitt marketing director, said at the weekend that the group was now looking to the German and Japanese markets for the next stage of its development.

Corporate raiders on the run, for the moment

Ron Brierley is changing his investment tack. Andrew Bolger reports

THE BUSINESSES associated with Sir Ron Brierley, the enigmatic New Zealand entrepreneur who this spring unsuccessfully laid siege to Vickers, are shifting their focus away from corporate raiding - at least for the time being.

Sir Ron appeared in London in April when Vickers shareholders overwhelmingly defeated his plan that the engineering and defence group should demerge its Rolls-Royce Motor Cars subsidiary.

The proposal was tabled by IEP Securities, which spent more than £100m in building a 20 per cent stake in Vickers. The British-registered IEP is an investment vehicle controlled by Brierley Investments Ltd, the New Zealand company he founded 29 years ago.

Sir Ron has this year stepped back from day-to-day running of the business. He has only a 4 per cent stake in IEP, and earlier this year he handed over the chairmanship to his deputy, Mr Bruce Hancock.

Mr Paul Collins, chief executive of IEP, said 90 per cent of the decisions taken by the company did not involve Sir Ron, who was now free to concentrate on what he does best

- researching investment opportunities.

Sir Ron has the title of founding president of IEP, but does not draw a salary. Mr Collins said: "He's very cheap to keep. Ron does not see carrying luggage, so we pay for a hotel room in London 365 days a year where he can keep his suits. We did the same for him in Sydney until he bought a house there."

Mr Collins, who was visiting London last week, said IEP's stake in Vickers fell into a difficult category, where they would not wish to sell at the present price level, but certainly would not wish to buy another 10 per cent either.

IEP paid an average of 200p for its Vickers shares, which on Friday closed at 216p. Mr Collins said the increase more or less covered the carrying costs of the investment, and IEP had been at least partly successful in getting Vickers to give the City a better idea of the value of its assets.

More generally, Mr Collins said IEP had decided to concentrate its resources on the company's major UK investments - its stakes in Tizer, Kemsley & Millbourn, the motor distributor, and Mount

Charlotte Investments, Britain's second biggest hotels group.

IEP already owns 78.1 per cent of TKM and has obtained shareholder approval to buy the rest of the company for \$90m in cash. TKM, which is chaired by Sir Ron, felt that the size of the IEP holding had led to a lack of institutional demand for the shares, and as a result its share price did not reflect the group's improved profitability.

Last November IEP took up its full entitlement to the rights issue by Mount Charlotte which the group used to help fund the \$550m purchase of the British Hotels chain and an IEP director joined Mount Charlotte's board.

Mr Collins does not rule out making further acquisitions in the UK, and said IEP had several deals under review. But in general he felt the British equity market would get worse before it got better and there would be likely to be even better bargains around in six months' time.

IEP's focus on investment in the UK has been accompanied by disposals in the US, New Zealand and France.



Paul Collins: does not rule out making further UK acquisitions

reducing its US exposure, partly because shareholders there had not become so litigious. He had been particularly dismayed by the experience of BT, the British conglomerate which saw its bid for Norton, the US abrasives

maker, defeated by strong local opposition to investment from overseas. Mr Collins said many US states had now passed laws which meant stakes in US companies could be frozen indefinitely by court action.

Astec (BSR) in Franco Italian joint venture

By Andrew Hill

ASTEC (BSR), the electronic components manufacturer based in Hong Kong, is to link up with the Franco-Italian semiconductor group SGS-Thomson Microelectronics to exploit the market for high-technology power conversion equipment.

Astec, formerly BSR International, already designs semiconductor converters for power supply equipment used in computers, cellular telephones, printed circuit boards and audio-visual equipment.

The group is a customer of SGS, which also supplies semiconductor converters direct to equipment manufacturers. SGS is jointly owned by Thomson-CSF of France and IRI-Finmeccanica of Italy.

According to Mr Peter Marshall, Astec's deputy chairman,

the object of the strategic move is to ally SGS's design expertise with Astec's experience in the power conversion industry.

Mr Marshall said yesterday: "We will have a much better chance of winning more business from our existing customers if we can provide state-of-the-art design in power conversion and supply."

Astec recently signalled a recovery from the downturn at the company in 1988, when profits slumped from £16.4m to £3.2m before tax.

In March 1989, the US electrical company Emerson Electric took a 45 per cent stake in Astec. Astec made \$5.7m before tax last year, but acquisitions from Emerson helped the group to a \$5.1m profit in the first half of 1989.

GW Thornton £2.65m disposal

GW Thornton Holdings is to dispose of the remaining parts of its business service division for £2.65m cash.

Other sectors of the division were sold in March and June.

Following the proposed disposal, USM-quoted Thornton will have cash at bank of £8.3m and an outstanding long-term bank loan of £1.5m.

Perry 42% interim fall to £2.21m

PERRY GROUP, the Hereford-based motor dealer, reported pre-tax profits of 42 per cent lower at £2.21m, against £3.78m, in the first half of 1990.

Turnover was lower at £172.53m (£178.35m). After tax of £736,000 (£1,371m) earnings per share came out at 7.5p (13p). The interim dividend is being maintained at 2.75p.

The pre-tax figure was struck after interest charges little changed at £1.37m (£1.32m) and finance losses of \$457,000 (\$427,000).

Magnolia profit downturn

Pre-tax profits down from £715,000 to £501,000 were announced by Magnolia Group, the Southend-on-Sea based maker of picture frame mouldings, for the six months to June 30.

Earnings per 10p share fell to 5.56p (7.97p) but the interim dividend is maintained at 1.75p.

A major reduction in retail activity had continued in the early part of 1990, the directors said.

Turnover improved to £11.57m (£11m) but cost of sales rose to £8.58m (£8m). Interest payable was £136,000 (£127,000) and tax took £182,000 (£255,000). Shareholders in Acotec and Fraser holds a 29.38 per cent interest, returned profits of £2.68m pre-tax for the first half of 1990, up 36 per cent on last time.

Turnover expanded from

£6.04m to £8.36m and from earnings of 12.6p (9.27p) the interim dividend is being stepped up by 25 per cent to 2p per 5p share.

Storhouse, stores group, has bought in 50 per cent of its 568m 4 1/2 per cent convertible Eurobond last week, spending about \$45m in the capital markets by the close of the offer at 4pm last Friday.

When the offer was announced the company was hoping to buy back a turnover of £10.45m (£11.88m) - the company's ordinary shares are not listed.

Directors warned that trading in the second six months had continued to be difficult and added that it was evident that the full year outturn would not approach the levels reached in 1988 and 1989.

The six months to end-June saw profits fall from £1.44m to £10,000 pre-tax from a turnover of £10.45m (£11.88m).

Directors warned that trading in the second six months had continued to be difficult and added that it was evident that the full year outturn would not approach the levels reached in 1988 and 1989.

Earnings per share were 4.7p compared with 8.1p in 1989. The interim dividend is 1.70p (same).

Market rises 36% to £2.68m

Mallett, the London antique dealer in which House of Fraser holds a 29.38 per cent interest, returned profits of £2.68m pre-tax for the first half of 1990, up 36 per cent on last time.

Turnover expanded from

NEWS DIGEST

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Turnover expanded from

Butte Mining attempts Australian merger

By Kenneth Gooding, Mining Correspondent

Butte Mining, the London-listed company with interests in Montana in the US and Staffordshire in the UK, is attempting to form a medium-sized gold mining group by merging with two Australian concerns, VAM and Perserverance Corporation.

After making the all-share bid worth a total of A\$71.14m (£30.79m), Mr Alan Richardson, Butte's chairman, said that institutional investors were no longer very interested in small gold mining companies.

He suggested the three companies combined would have a much better future than if they continued to go their separate ways.

Together they would have a market capitalisation of about \$40m and produce about 65,000 troy ounces of gold a year.

There was no immediate reaction from the target companies which share the same operational management and are quoted on the Australian Stock Exchange. Waverley Investment Finance, the Scottish group, said it would accept in respect of its 16.45 per cent VAM stake.

Mr Richardson said the deal was not undertaken for cash for the aim was to bring in cash for the three companies.

DIVIDENDS ANNOUNCED

Company	Current payment	Date of payment	Corresponding dividend	Total for year	Total last year
Brammer	4.5	-	4.5	-	13
City & Commercial	3.25	-	1.75	-	5.25
LIT Holdings	nil	-	3.44	-	7.75
Magnolia	1.75	-	1.75	-	5.4
Mallett	2	Oct 12	1.8	-	5.6
Perry Group	2.75	-	2.75	-	9

Dividends shown pence per share net except where otherwise stated. *Equivalent after allowing for scrip issue. †On capital increased by rights and/or acquisition issues. SUSM stock.

Western Mining Corporation Limited

US\$50,000,000 9% Bonds 1992

S. G. Warburg & Co. Ltd. announce that the redemption instalment of Bonds due 15th October, 1990 for a nominal value of US\$937,000 has been met by purchases in the market.

US\$29,999,000 nominal amount of Bonds will remain outstanding after 15th October, 1990.

The following Bonds previously drawn for redemption on the dates stated below have not yet been presented for payment:-

15th October, 1987 1271 7830 17795

15th October, 1986 84

10th September, 1990

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BANQUE NATIONALE DE PARIS Floating rate note issue of USD 400 millions. September 1993/91. The rate of interest applicable for the period beginning 6.3.90, and set by the reference agent is 8 3/4% annually.

FINANCIAL TIMES STOCK INDICES

	7 Sep	8 Sep	9 Sep	10 Sep	11 Sep	12 Sep	13 Sep	14 Sep	15 Sep	16 Sep	17 Sep	18 Sep	19 Sep	20 Sep	21 Sep	22 Sep	23 Sep	24 Sep	25 Sep	26 Sep	27 Sep	28 Sep	29 Sep	30 Sep
Government Secs.	78.07	78.51	78.57	78.40	78.40	78.33	84.20	74.13	127.4	49.18														
Fixed Interest	86.30	86.53	86.42	86.23	86.30	86.20	82.91	85.80	108.4	50.50														
Ordinary	1838.5	1839.9	1872.2	1870.9	1867.4	1863.8	1864.2	1864.2	2008.8	48.4														
Gold Mines	194.6	195.8	192.3	193.3	198.2	197.3	378.5	197.8	734.7	45.5														
FT-Act All Share	1051.07	1051.06	1045.08	1045.83	1042.43	1051.08	1226.83	1013.26	1258.57	61.62														
FT-SE 100	2122.9	2120.9	2152.2	2148.0	2148.0	2148.0	2483.7	2075.0	2463.7	989.9														

BIDDER/INVESTOR	TARGET	SECTOR	VALUE	COMMENT
Dredner Bank (W Ger)	East German joint venture	Banking	£117m	Stake upped to 85%. Target integration
Steelley (UK)/Inmetal (France)	Joint venture	Building	N/A	Continuing industry trend
NorthWest Inv Bank (UK)/Dai-ichi Mutual Life Insurance (Japan)	DaiNat (Jv)	Investment management	N/A	Marrying skills
Singapore Aerospace (Singapore)/Qualifair Aviation Group (UK)	Qualifair Rotables Service (Jv)	Aircraft servicing	N/A	SAs establishment overseas beach-head
Redland (UK)	Schledel (W Ger)	Building	£30m	Strengthening position in growing market
DKI (Japan)	Technibron (UK)	Printer distribution	£25m	Preparation for Single Market
BBA Group (UK)	Texalar (US)	Plastic components	£18.6m	Product diversification
Pierre Cardin (France)	Pierre Cardin perfumes	Perfumes	N/A	Buy-back from American Dynamid
Royal Bank of Scotland (UK)	Bank of New England - Old Colony	Banking	£13.2m	Purchase via existing New England subid
Albert Fisher (UK)/Larose (Spain)	Albert Fisher Larose (50:50 Spanish Jv)	Food processing	£5.4m	Venture seeks Iberian agents

Text comes here (do Control + T to type), in bold, ending first sentence with writes Brian Bollen.

Source: FT Mergers & Acquisitions International

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1990 TARGET CONFIRMED

Business achieved during the first six months was conform to our objectives:

- In France, the Group returned to a satisfactory rate of growth with sales increased by 6 % compared with the first six months of 1989.
- In Germany, sales were up by 4 %. Rowenta improved its margins and concentrated on key products, while Tefal achieved an excellent growth rate.
- International business continued to increase at an encouraging rate (up by 14 %), particularly in North America.

(in millions of FRF)	June 30, 1990	June 30, 1989
Net sales	3,277	2,956
Operating income after interest	130	97
Net income	41	23

PROSPECTS FOR THE FULL YEAR

Despite the international crisis which has just emerged, the Group remains confident about the possibility of achieving sales of FRF 7.2 to FRF 7.3 billion (+ 8 % approx.), and reaching 1990 target of FRF 500 million of operating income after interest as announced at the end of March (+ 20 %).

1500000000

COMPANIES AND FINANCE

NZ Government backs settlement of DFC debts

By Simon London

THE New Zealand Government is to back a settlement between DFC New Zealand, the merchant bank which collapsed last year, and international creditors owed NZ\$2.2bn (US\$1.4bn).

The Government's involvement is a move to patch up a rift with the international financial community over the collapse of DFC, which was privatised in 1988.

When the scale of financial problems at DFC came to light in October 1989, Finance Minister Mr David Cagill refused to sanction government participation in any refinancing, forcing the Reserve Bank to appoint statutory managers with court protection.

Many creditors had earlier understood there to be "an implicit guarantee" that the authorities would support DFC after privatisation.

The biggest creditors are a circle of leading Japanese banks holding DFC Eurobonds and short-term commercial paper including Bank of Tokyo, the Long-Term Credit Bank of Japan and the Industrial Bank of Japan.

The New Zealand Government's refusal to support DFC last year caused a financial rift between the two countries.

There was also concern that DFC's last set of published accounts in May 1989, signed

by the Government Auditor, did not reflect the serious problems at the bank.

However, according to representatives of big creditors, legal action over the accounts is now unlikely.

Details of the settlement emerged following private meetings in London between representatives of the leading creditors and Mr Sandy Maier, DFC's statutory manager.

Creditors will be offered a mix of fixed-rate seven year bonds and variable-rate five year bonds. The exact mix will depend on each individual claim against DFC.

The bonds will bear interest at sub-market rates, with the rate on the five year bond dependent on cash flow generated from an orderly realisation of DFC's assets. But Maier has indicated that most creditors will receive full repayment of principal by the end of the seven-year period.

The New Zealand Government will sell seven year zero-coupon bonds, issued well below par, to DFC. DFC will meet redemption payments on its creditor bonds out of the maturity of the Government stock. In this way the Government hopes to make the package acceptable to DFC creditors without actually guaranteeing DFC debt - a move it has always resisted.

Pemex to launch \$150m bonds to yield 11 3/4%

By Tracy Corrigan

THE RETURN of Mexico's largest company, Petroleos Mexicanos, to the Eurodollar bond market is scheduled for September 18. The state oil company is the fourth largest industrial group in the world, with assets of \$45bn, and the fourth in the oil industry.

Pemex plans to launch \$150m of bonds due October 25, 1993. The bonds will be priced to yield around 11 3/4 per cent. It will be paying more than 200

basis points above the comparable US Treasury issue, even though the improved perception of Mexican debt has allowed a significant reduction in costs.

Lead manager Swiss Bank Corporation said there has been interest from Japanese, European and US investors in the course of pre-marketing, with the added promise of demand from Swiss Bank's own retail network.

Bonn uses promissory notes to finance unity

By David Marsh in Bonn

THE West German Government has been raising money through promissory notes or Schuldscheindarlehen (SDs) for the first time since 1984 as a means of financing the growing costs of German unity, according to Finance Ministry officials.

The Bonn Finance Ministry has issued DM3bn (\$1.9bn) of promissory notes for domestic and foreign investors during the past few weeks for the German Unity Fund (GUF), the mechanism to channel cash to East Germany.

This is in addition to DM5bn raised for the GUF through public bond issues. The existence of the additional SD funding route explains the Finance Ministry's relative equanimity about the failure last week of the first public auction of unity bonds.

The Ministry believes any Unity Fund shortfall can be made up through promissory notes. The GUF plans to raise DM20bn by the end of the year, so another DM5bn in borrowings - through a mix of instruments - is scheduled for coming weeks.

The Finance Ministry, which is managing East Germany's funding programme until full unity takes place on October 3, has also recently issued just over DM5bn worth of promissory notes on behalf of the East German Government.

This is on top of just under DM5bn of non-interest bearing Treasury discount notes which have been auctioned publicly. The paper is issued in the name of the East German Finance Ministry, with a West German Government guarantee.

East Germany has thus raised DM12bn directly in its own name in the last few weeks, DM2bn more than the target for the second half of the year set down under the borrowing programme conceived during the summer.

Bonn now accepts that the mooted DM12bn budget deficit for East Germany in the second half of the year - to be financed both by the GUF and by direct East German borrowing - will be overshot by at least DM10bn.

Foreign investors, including Japanese investment houses, have been showing interest in Unity Fund issues, partly because these bonds and notes reflect a means of diversifying borrowers' bases.

Japanese investment houses have gone so far as to ask the Finance Ministry to launch a private offering of D-Mark Unity Fund paper exclusively for Japanese investors. A similar proposal - for a Unity Fund issue tailored purely for French investors - has been made informally by French banks.

The Finance Ministry has so far turned down the idea of splitting up geographically the Unity Fund's borrowing programme, on the grounds this would introduce unnecessary market distortions.

Bundestank's formidable task, Page 18

Pharmaceuticals debt proves hard pill to swallow

William Dawkins examines the performance of Rhône-Poulenc

Rhône-Poulenc, the flagship of the French state-owned chemicals industry, looked low in the water last week when it revealed a 12.9 per cent decline in net profits, worse than most analysts' already pessimistic forecasts.

Investors' nerves must have been hardened recently by a series of poor results from the world's leading chemicals companies.

But Rhône-Poulenc's fall in net profits from FF2.5bn (\$477m) to FF2.2bn on sales up from FF17.1bn to FF18.9bn in the six months to the end of June, still provoked a rash of selling.

It came with a gloomy warning that the rise in oil prices plus the dollar's continued fall and slower economic growth could hit income even harder in the current half.

A sharp rise in interest payments meanwhile provided a reminder of the debt burden the French company has built up in its aggressive international takeover spree, which saw it spend FF12.4bn on takeovers last year.

By the end of the week, the share price was hovering at around FF240, 14 per cent down on the FF280 at which it stood before the Wednesday announcement, while analysts busily scaled back their end of year price forecasts.

BNP Securities, formerly one of the more optimistic Rhône-Poulenc watchers, dropped its forecasts by nearly 20 per cent to FF33bn net profits for the year, which would be a 25 per cent decline from last year's figure of just over FF40bn.

The first-half decline in earnings was of the same order - in some cases better - than other leading European chemicals companies' achievements.

And yet Rhône-Poulenc's share price has taken a much harder hammering than its European competitors'.

According to stockbrokers

James Capel, the French company's certificates of investment - non-voting shares - have underperformed the market by 56 per cent over the past year, doing roughly twice as badly as the average for other European chemical majors.

Rhône-Poulenc has, like its competitors, suffered from the fall of the dollar and the yen against other European currencies, and done better than some in targeting the higher value-added products.

So why has the French company come in for this hard treatment?

"Part of it is the difficulty investors have in understanding the extent and duration of its restructuring programme. Over the past eight years Rhône-Poulenc has built up a quarter of its sales in pharmaceuticals, a change which does not come cheap," says Jackie Ashurst, European chemicals analyst for James Capel.

A related reason for the share price underperformance, argues Mr Alastair Kilgour, chemicals analyst at BNP Securities, has been investors' worries over Rhône-Poulenc's debt burden.

Borrowings had risen to 96 per cent of shareholders' funds by the end of June, from 53 per cent in the same month of 1989.

This might make Rhône-Poulenc look vulnerable to interest rate rises, compared with competitors like Bayer and BASF of West Germany or DSM of the Netherlands, which have net cash.

"If not state-owned and looked at in straight terms, one would say this company should be looking for a very hefty cut in its dividend," says one analyst.

However, the signs are that the French Government is unlikely to allow a big dividend cut, if only because of the damage that would do to the group's future attempts to raise capital.

NEW ISSUES September 6, 1990

FannieMae

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Dated September 10, 1990 Due September 10, 1997
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Series SM-1997-J Cusip No. 313586 R 92
Callable on or after September 10, 1994

Price 99.875%

\$400,000,000 9.20% Debentures

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Series SM-2000-G Cusip No. 313586 S 26
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Price 100%

The debentures of September 10, 1997 are redeemable on or after September 10, 1994 in whole or in part at the option of the Corporation at any time (and from time to time) on or after the initial redemption date at a redemption price of 100% of the principal amount redeemed plus accrued interest thereon to the date of redemption.

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Linda K. Knight

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This announcement appears as a matter of record only. This announcement is neither an offer to sell nor a solicitation of an offer to buy any of the Debentures.

PHARMACEUTICALS

The Financial Times proposes to publish this survey on:

25th October 1990

For a full editorial synopsis and advertisement details, please contact:

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FINANCIAL TIMES

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PRIMARY CAPITAL UNDATED FLOATING RATE NOTES

(SECOND SERIES)

Notice is hereby given that the Rate of Interest has been fixed at 6.1675% and that the interest payable on the relevant interest Payment Date December 10, 1990 in respect of \$5,000 nominal of the Notes will be \$103.44 and in respect of \$100,000 nominal of the Notes will be \$2,066.62.

September 10, 1990, London

By: Citibank, N.A. (CDSI Dept.), Agent Bank

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All these securities having been sold, this announcement appears as a matter of record only.



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July 1990

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INTERNATIONAL CAPITAL MARKETS

GILTS

Analysts watch ERM countdown

THE COUNTDOWN for Britain's long-awaited entry into the exchange rate mechanism (ERM) of the European Monetary System went on hold early on Friday morning, sending the gilt market into a shudder of disappointment.

The ruling-out by Mr John Major, the Chancellor, of entry over the weekend was accomplished with a firmness that led many observers to believe that Britain was unlikely to join the mechanism in the immediate future.

That effectively demolished the speculation by City economists in the past fortnight that imminent entry was likely. The analysts now have to go back to their computers, adjusting their models of the effects that ERM entry will have on the gilt market.

They will have to take into account not just the likely timing of any announcement but other imponderables such as inflation and developments in the Gulf crisis.

To some degree, the recent conjecture in the gilt market about entry has resulted from wishful thinking both about the degree to which Britain has got on top of inflation and the likely course of events in the Gulf.

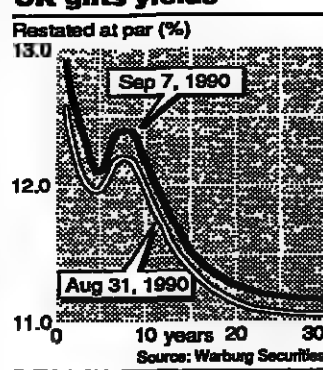
In the past few months, ERM speculation has boosted gilt prices. Since the warmongering in the Middle East started just over a month ago, this effect has not totally disappeared.

Mr Malcolm Roberts, an economist at UBS Phillips & Drew, points out that government bond prices around the world have dropped sharply since the start of the crisis, but gilts have held up better than comparable government securities in Japan, the US and West Germany.

In the next week or two, in the absence of any signals by the Government on the ERM, gilt prices are likely to fall back to reflect the increasingly pessimistic view of events in the Gulf. In this way the gilt picture will fit in better with worldwide bond price trends.

Many financial commentators remain unconvinced that Britain has inflation, now pushing 10 per cent, under control. A clutch of economic indicators due out this week - including retail sales today and unemployment and average earnings on Thursday - should pinpoint the degree to which Britain's economy is slowing down, providing some insight on inflation.

UK gilts yields



Whatever these figures reveal, Mr Major's comments on Friday, in which he emphasised the need to continue the battle against rising prices, supported the view that the Government is thinking about ERM in terms of later rather than sooner.

A further signal of a determined government approach to inflation came one day before the Chancellor's statement in the shape of a coded message from the Bank of England, indicating there will be no reduction in interest rates in the near future.

Events in the gilt market

last week - given the general lack of cheer on the economic front together with Mr Major's bluntness on the ERM - followed the predictable pattern. Yields for most types of bonds, both long and short, rose, indicating a slump in prices.

Over the past 10 days the fall in yields for some short-term bonds which had been evident in recent weeks - indicating a rosier view by the market of prospects for lower interest rates - started to peter out. That had the effect of reducing the trend towards a flattening of the yield curve which has excited comment in the past month.

What happens from now on is anyone's guess. Many economists believe a move by Britain on ERM is not likely until December. By this time, the political momentum for entry, coupled with a reduction in interest rates, may well have become irresistible.

Most gilt analysts believe ERM will be good for long-term market prospects. They are hoping that what many have taken to be a delay in the ERM launch will be followed by a successful blast-off in the not-too-distant future.

Peter Marsh

US MONEY AND CREDIT

Name of the game is still Saddam

A COLLEAGUE in Washington summed up the Fed-watching situation perfectly last week, as speculation about whether the Federal Reserve would ease interest rates or not reached yet another plateau.

One day, Thursday, Mr Alan Greenspan, Fed chairman, seemed to be warning that an easing was necessary to offset the contraction in credit by America's anemic commercial banks.

The next day, Friday, Wall Street's hopes of an easing in monetary policy faded as August employment figures - showing the highest unemployment level in two years, 5.6 per cent - proved to be not as bad as expected.

Legions of telegenic number crunchers meanwhile continued to bob up and down on Financial News Network and CNN with forecasts of recession, more unemployment, interest rate mayhem and oil at who-knows-what-price a barrel.

"Why doesn't the Fed simply declare a recession and call it a day?" joked my dry-as-the-desert interlocutor.

The market seemed half asleep for the first couple of days after the annual Labor Day. And then it began to lay odds on the Fed's Faustian ease-or-not dilemma.

Then some traders and commentators devoted their unspent energy to wondering about the prospects for solving the US budget deficit.

A further \$50bn of budget cuts were needed, said the negotiators in Washington as they assembled at the start of the weekend for yet another George Bush budget summit, this time amid the highly dramatic setting of Andrews Air Force Base.

At Andrews, Mr Bush said hello and then headed for Helsinki.

And Dick Darman, the brilliant, but little loved budget director, turned up like a Dick Tracy of American fiscal policy, cajoling, caressing and generally charming the denizens of Capitol Hill.

Still nothing. Meanwhile, over at the Fed, General Alan Greenspan, the chief officer in charge of Operation Ease-on, had the frazzled look of a tank commander in the Saudi desert.

It's been bad enough for the past couple of years as Greenspan and Co have danced on the delicate high wire of growth and inflation.

Now, after six weeks of Operation Desert Shield, the market can think of little else besides the price of oil in future at \$50 a barrel, claimed a belligerent Iraqi oil minister, on US television.

And the relative position of the US dollar (the fastest yo-yo of world currency markets).

It was in this context that the benchmark 8.75 per cent Treasury long bond closed last week with a ¼, spurt on the day to 8¾, making for a yield of 8.90 per cent, against 8.98 per cent a week before.

As the summer slips away almost everyone expects General Greenspan to mobilise his forces for something of an easing operation, sooner or later and most probably sooner.

Mr Robert Brusca, chief economist at Nikko Securities, says the Fed is waiting for the market to rally and to endorse the idea of a weak economy and a lessened inflation threat.

And the market is waiting for the Fed to go first.

"If you think that this sounds like a stalemate," said Brusca, "You're right."

Nonetheless, a few new multi-billion dollar arms package sales for McDonnell Douglas and other defence contractors will not lift the US economy out of its lethargic pre-recession blues alone.

Still the Americans persist with their economic dance macabre: Is the economy on the verge of recession or not?

Will the Gulf crisis tip America into the darkness of an economic downturn or not?

Is the coming recession a result of internal or external factors?

Are the fundamentals indicative of a mild recession, a two-to-three quarter recession or will we tough it out?

With the US military build-up underway these questions may still be relevant, but they are only relative.

The bond market, like the rest of the world's financial system, is playing a game of wait-and-see.

Interest rates might have been influenced until mid-summer by the Fed's peregrinations, the value of the US dollar, the vicissitudes of Karl Otto Pöhl's Bundesbank and the Japanese central bank, but the name of the game right now - and for the next 30 days at least - is Saddam Hussein.

The yield curve may turn steeper or may flatten in the coming weeks, but no investor, analyst, commentator, banker or trader worth his salt is likely to make much of a long-term decision until we see whether the world's biggest oil fields will remain secure or fall under the suzerainty of the Butcher of Baghdad.

That appears to be the rudimentary situation.

All bets are still off. It's still a game of wait and see.

Alan Friedman

W GERMAN BONDS

Bundesbank sets itself a formidable task

THE Bundesbank has set itself a formidable task in altering the issuing process in the primary German government bond market when it is struggling with the uncertainties of financing unification.

The embarrassing failure of last Tuesday's auction of Unity bonds was no surprise.

When the consortium met on Monday to set the terms of the fixed portion of the offering, there was disappointment that the first 8.75 per cent issue had been re-opened, rather than a new 9 per cent coupon offered.

The domestic banks argue that 9 per cent is an important psychological barrier with retail investors, and the August postal authorities' issue, which did offer 9 per cent, proved the point. Hence all the bids on Tuesday were well over 9 per cent. The authorities accepted none of them.

The dispute was not purely

about yields. Indeed, the auction's failure was greeted with glee by large German banks in the consortium. They have been arguing for months that it is unreasonable to reduce the importance of the highly profitable consortium just when they are being asked to place almost record amounts of new paper.

Ironically for the Bundesbank, it is the foreign banks, which, with their minuscule consortium quotas, have been the most enthusiastic proponents of change.

However, at current yields, foreigners, particularly gloomy about the costs of unification, are not buying bonds.

Meanwhile, veiled accusations fly as to who is responsible for the flop. The Bundesbank, as issuing agent of the Government, and proponent of the auction system, sounded unhappy that the bids had been rejected on just the sec-

ond occasion the process was being tested. Finance ministry officials contended they would have agreed to a 9 per cent coupon, presumably at an issue price that ensured the same effective yield.

The Bundesbank may have miscalculated, thinking that enlarging and hence enhancing the liquidity of the old issue would be preferable.

The MoF, which has been

issuing heavily in the Schuldschein (promissory note) market, may be able to argue it does not need the funds.

The Bundesbank has made much of the fact that the German market has fallen less since the Gulf crisis than overseas markets. The absence of give and take could jeopardise that stability.

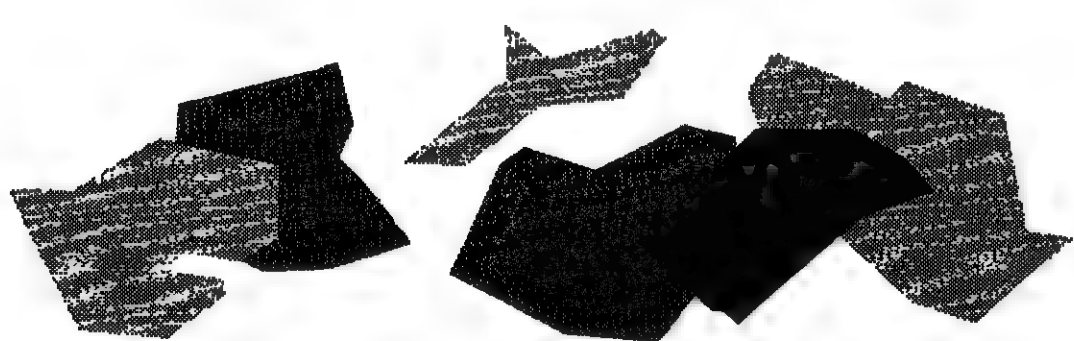
Katharine Campbell

NRI TOKYO BOND INDEX

PERFORMANCE INDEX				
	6/9/90	8/23	12/24	24/24
Overall	141.5	141.5	141.5	141.5
Government Bonds	138.08	138.08	138.08	138.08
Non-Government Bonds	145.74	145.74	145.74	145.74
Govt. Guaranteed Bonds	140.01	140.01	140.01	140.01
Bank Deposits	140.01	140.01	140.01	140.01
Overseas Bonds	140.01	140.01	140.01	140.01
Yen-denominated Bonds	140.01	140.01	140.01	140.01
Government 10-year	7.57	7.54	7.53	7.53

Source: Nomura Research Institute

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INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL LENDING

Roche secretive over \$2bn financing

NOT for nothing are Switzerland's companies known for their secrecy. A cryptic statement put out by Roche Holdings last week said the company had signed a \$2bn bridging financing.

It said the facility was with a bank group which "includes" Swiss Bank Corporation as senior lead manager, Amsterdamsche Bank, Banque Nationale de Paris, Deutsche Bank (Luxembourg) and Fuji Bank. Apart from stating that the financing was for the \$2.1bn acquisition announced in February of Genentech of the US, the statement disclosed little else.

Officials of Swiss Bank said they were constrained by Roche from throwing more light on the financing. But the suggestion is the eagerness stems from the absence of the other two big Swiss banks from the announcement - and presumably therefore from the financing.

Roche itself was apparently the arranger of the financing and the explanation for the absence of Union Bank of Switzerland and Credit Suisse appears to be that the pricing of the loans, though not disclosed, was too tight for their comfort.

Bankers report a varied response to the financing of the UK electricity distribution companies. While some syndications are complete, others - named several times were those for the East Midlands and South-Eastern companies - are said to be having difficulty.

A \$750m year corporate credit being arranged for American Airlines by Credit Suisse First Boston carries a

facility fee of 10 basis points and an interest margin of 12½ basis points, rising to 12½ and 15 basis points respectively if the company is downgraded by both of the main US rating agencies.

Its current rating is A- and A3. Utilisation fees of 5 basis points are payable if more than a third is drawn and 10 basis points if more than two-thirds drawn. Thyssen of West Germany enlarged a corporate credit arranged by J.P. Morgan to \$1.2bn from \$1bn after success in syndicate for the \$100m six-year term loan for the Hellenic Aspropyrgos Refinery, guaranteed by the Bank of Greece, at more generous terms than the recent market foray by Greek borrowers. The loan carries a two-year grace period and a margin of 50 basis points for two years and 55 basis points thereafter.

The loan, underwritten by Mitsubishi, Dai Ichi Kangyo, Fuji, Standard Chartered and Fuji Sammu, should be seen as weighted for bank capital adequacy purposes. Front-end fees range down from 40 basis points.

Stephen Fidler

German bank in Spanish deal

By Katharine Campbell in Frankfurt

BAYERISCHE Vereinsbank, the Bavarian-based institution, is expanding its European presence through a co-operation agreement with Spain's Banco de Sabadell.

The primary areas of focus will be commercial lending, stockbroking and corporate finance. Vereinsbank has for some years emphasised Mediterranean countries in terms of its expansion abroad. In 1989 the bank opened a branch in Greece.

With a balance sheet of around Ptas900bn Banco de Sabadell is among Spain's 10 big banks. Its domestic network has 290 branches, concentrated around Barcelona and Madrid, the Spanish Mediterranean coast and the Balearics.

INTERNATIONAL BONDS

Fund managers reassess conventional wisdom

THE CONVENTIONAL wisdom is that fund managers, sent into a spin by the Gulf crisis, switched out of bonds into money market instruments. The flight to the relative security of shorter-dated securities caused a steepening of the yield curve in most bond markets.

Institutional investors are now reassessing this stance. With the proviso that full-scale war does not break out in the Gulf, many believe bond markets are offering attractive returns.

"It's like being a racing driver. When you see a car crash in front of you, your instinct is to slow down, but your tactic should be to accelerate and win the race," said Mr John Kibble, deputy head of capital markets at Westpac.

Most fund managers are at least changing gear. "We were very heavily in cash, but now see... a buying opportunity," said Mr Peter Zoll, managing director of SBC Portfolio Management International.

Some investors argue that the markets have already discounted the strife in the Gulf to a large extent. In the meantime the likelihood of recession continues to favour the performance of bond markets.

"The Gulf crisis gives us better opportunities to buy bonds at high yields, rather than reason to be afraid," says Mr Axel Benkner, manager of the DM20bn INTER-RENTA fund at DWS, the fund management arm of Deutsche Bank. Currently the INTER-RENTA fund has around 20 per cent in deposits, and most of the rest in short-term securities up to two years, but is prepared to extend out along the yield curve.

Most fund managers are now ready to extend duration. Japan, where rates are historically high, and France, which has slumped more than most in the wake of the Gulf crisis, appear to be the most favoured markets.

There appears to be a general shift towards Europe, excluding Germany where the uncertainties of reunification are proving a disincentive and away from the US. Some managers favour sterling bond markets, because they think the prospect of ERM entry will support the markets.

Robert Stirling, bond fund manager at the OT fund management group, said the advantages of short-term holdings have largely disappeared. Therefore, he will be moving out of cash positions

adopted in higher-yielding markets like Spain and the UK.

Currently, holdings are around 30 per cent cash or cash instruments, and only 20 per cent in bonds at more than five years, but that maturity profile will soon be lengthened. For the first time in several years, he will be moving back into the long end of the yen bond market from a position of holding yen cash.

Mr Zoll of SBC also favours Japan, at moments of weakness, both for the interest rate and currency outlook. "We are a little cautious on Germany. But there will be good real returns on bonds in Switzerland and France," he says.

Mr Stirling of GT also thinks the best value is in Europe, again citing France, as well as peripheral markets such as Denmark. Geoff Senior, senior portfolio manager at Bankers Trust Asset management, has moved into Australian government bonds, three and four-year BTANs (French Treasuries) and Japanese government bonds.

There is agreement, broadly, that currency is the most dangerous exposure. Some, like Mr Blanning, see all currency exposure. Others, depending on their clients' profile, are just more cau-

tious. GT's Mr Stirling agrees: "We are certainly laying greater emphasis on the currency rather than on interest rates."

Mr Zoll of SBC says he is hedging currency positions more than before because many of his clients are dollar-based. "We don't feel very good in dollars, so are reducing our client's exposure to dollars."

Most fund managers said their approach to credit quality has not changed as a result of the Gulf crisis. For many, stricter attitudes to credit ratings were adopted some time ago.

Some managers feel the markets are still too unpredictable to take positions. Mr Michel Gonnard, portfolio manager at Kemper Investment Management, says he is reducing exposure on most bond markets and taking a more neutral position. He is measuring portfolios against bond indices such as Salomon's as a way of hedging exposure.

He said: "We have reduced our bets on various markets. We had substantial positions in Europe which we have reduced."

Tracy Corrigan

Citibank to issue FT-SE warrants

By Simon London

CITIBANK is to issue up to 5m index warrants on the FT-SE index of 100 leading shares.

Citicorp Investment Bank is acting as sole lead manager for the two-tranche issue, which comprises 2.5m call warrants (giving holders the right to buy) and 2.5m put warrants (giving holders the right to sell).

Investors will receive the difference, on the exercise date, between the "strike" price of 2,130 on the FT-SE and the closing FT-SE level.

Both warrants can be exercised any time from October 8 1990 and September 30 1992.

The call warrants are priced at \$4.35, giving a premium of 20.4 per cent and gearing of 4.9 times. The put warrants are priced at \$2.00, giving a premium of 9.4 per cent and gearing of 10.7 times.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %	Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
DOLLARS								ECUs							
Mitsui B.S.K. Lines	330	1994	4	5	100	Nomura Int.	6.000	Swedish Export Credits	100	1993	3	(q)	110	Mitsubishi Finance	-
Sunkyo Industries	40	2005	15	1½	100	Nikko Securities	1.600	Unibank	30	1993	3	(h)	100	Danske Securities	-
United Corp.	120	1994	4	(5½)	100	Nomura Int.	-	Auftrag	150	1995	5	10½	101.35	Paribas Ltd.	9.986
Kansai Int. Airport	70	1997	7	9½	101.85	Bk of Tokyo Cap.Mkts.	-	STERLING							
Nippon Credit Bank	400	2000	10	(b)	100.25	Nippon Credit Int.	9.131	Nationwide	75	1994	4	13½	102.10	Samuel Montagu	12.620
Fuji Bk(London)	700	2000	10	(c)	100	Fuji Int.Fin.	-	Bid.Soc.	175	1993	3	13	101.52	CSFB	2.487
Bank of Tokyo	700	2000	10	(d)	100	Bk of Tokyo Cap.Mkts.	-	British Gas	175	1993	3	13	101.52	CSFB	2.487
Mitsui Taiyo Kobe	180	2000	10	(e)	100	Mitsui Taiyo Kobe Int.	-	Lasmo	90	2005	15	7½	100	SBC	7.750
Kawasaki Steel Corp.	350	1994	4	(5½)	100	Nomura Int.	-	Mortgage Securities	(f)	2028	38	(g)	99.50	J.P. Morgan Secs.	-
Trips Ltd	70	1992	2	(a)	100.10	Toyot Trust Int.	-	TMC PIMBS	250	2028	38	(a2)	100	Salomon Brothers Int.	-
Nippon Kinzoku Co.	70	1994	4	(5½)	100	Nikko Securities	-	YEN							
Sunkyo Ind.Ltd.	40	2005	15	1½	100	Nikko Securities	1.800	Toronto Dominion Bk.	40n	1991	1	15	101.25	New Japan Securities	14.968
Yamanashi	200	1994	4	5½	100	Nomura Int.	5.125	Okobank	50n	1993	3	7½	101.17	Mitsubishi Trust Int.	7.300
Merrill Lynch Bank AG	100	2000	10	(v)	100	Merrill Lynch Int.	-	Flora S	100n	1992	2	7½	101.17	LTCB	7.153
NEC Corporation	350	1994	4	(5½)	100	Daiwa Europe	-	C. Itah Int.Fin.	50n	1995	5	(a8)	100½	Wako Int.	-
D-MARKS								Kansai Daiichi Bank	40n	1991	1	16.3	101½	New Japan Securities	15.036
Shinshu Corp. of Japan	100	1994	4	5½	100	Nomura Bk GmbH	5.250	Osterr.Landerbank Aktien	30n	1991	1	(w)	101½	New Japan Securities	15.036
Mitsui B.S.K. Lines	150	1994	4	5½	100	Nomura Bk GmbH	5.250	NKK Corporation	300n	1997	7	8½	(x)	Daiwa Europe	-
AUSTRALIAN DOLLARS								Sharp Int.Fin. UK	50n	1994	4	(y)	101	Nomura Int.	-
Deutsche Bk.Fin.NV	80	1993	3	14	101.85	Deutsche Bk.Cap.Mkts.	13.298	LUXEMBOURG FRANCS							
State Bk of NSW	100	2000	10	8	82.1	Nomura Int.	12.979	GMAC Continental	250	1993	3	10	101½	Credit European Lux.	9.256
GMAC Aust.Fin.	75	1995	5	14½	101.15	Hambros Bank	4.738	Bil. S.A.	10n	1997	7	9½	102	BIL	9.471
CANADIAN DOLLARS								Final terms							
Swiss of Europe	100	1992	2	11½	101½	Bankers Trust Int.	10.804	Final terms							
SWISS FRANCS								Final terms							
Siemens	80	1994	4	4½	100	Nomura Bk (Switz)	4.750	Final terms							
Tokyo Mitsu Bk	40	1995	5	6½	100	Bk.de.Switzerland	5.125	Final terms							
Nikko Bk	30	1994	4	5	100	SBC	5.000	Final terms							
Sankyo Kasei Corp.	10	1997	7	7½	100	OKB	7.875	Final terms							
IBM Int.Fin.	100	1995	5	8	101	Credit Suisse	7.411	Final terms							
Electricite de France	120	2000	10	7½	102	SBC	8.955	Final terms							
Prov. of Newfoundland	125	1995	5	7½	101	UBS	7.344	Final terms							
TSD Co.Ltd.	45	1995	5	4½	100	Yamaichi Bk (Switz)	4.750	Final terms							
Atsugi Nylon	200	1995	5	4½	100	SBC	4.487	Final terms							
Matsuo Bridge Co.	45	1995	5	4½	100	SBC	4.487	Final terms							
Nippon Paints	18	1995	5	4½	100	Nomura Bk (Switz)	4.743	Final terms							
Seikido Kogyo	100	1995	5	4½	100	Swiss Volksbank	4.500	Final terms							



In fact, we wrote the book.

If you are considering U.S. or Canadian markets for your institutional investments, you should talk with these men: Donald Cox, Justin Marris, David Prince, Lap Lee. Senior investment strategists at Gordon Capital, who focus their global expertise on North American markets. And co-author this book.

We call it the North American Guide for Institutional Investors.

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Gordon Capital. A Hands-On Approach

With it, comes our firm hand. Guiding their investment decisions by providing focused research on specific industry segments. Expert counsel on economic trends and valuations of investment opportunities around the globe. And particularly in North America. Where the opportunities are immediately within our grasp.

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Gordon Capital has topped the Toronto Stock Exchange for 5 of the last 7 years. The other 2 years we placed a humble second. In 1989 we traded a total of close to \$22 billion worth of equity securities. The largest total dollar volume traded by any investment banker in Canada.

Gordon Capital.

A Full-Service Investment Banker. Gordon Capital is a leading Canadian underwriter as well. Managing or co-managing 81% of all common equity underwritings.

and 75% of preferred share underwritings

by dollar volume in 1989.

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And with our real estate partner, Gordon and Young, we continue to play a significant role in North American real estate and property development markets.

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Our dominance on the home front has enabled us to look well beyond the horizon.

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Together with our real estate and merchant banking affiliates, Gordon Capital comprises

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Because when it comes to investment in North America, we continue to write the book.

Gordon Capital Corporation

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Toronto Montreal Calgary Vancouver New York London Paris. Represented in Tokyo Taipei

New Issue

This announcement appears as a matter of record only.

7th September, 1990

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U.S. \$340,000,000

4½ per cent. Bonds 1994

with

Warrants

to subscribe for shares of common stock of Kobe Steel, Ltd.

Issue Price 100 per cent.

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Daiwa Europe Limited

IBJ International Limited

Nomura International

Barclays de Zoete Wadd Limited

Kleinwort Benson Limited

Bank of Tokyo Capital Markets Group

Chase Investment Bank

Lehman Brothers International

Morgan Stanley International

New Japan Securities Europe Limited

Salomon Brothers International Limited

Yasuda Trust Europe Limited

Banque Indosuez

Citicorp Investment Bank Limited

Cosmo Securities (Europe) Limited

Robert Fleming & Co. Limited

Kidder, Peabody International Limited

LTCB International Limited

Marusan Europe Limited

Mitsubishi Trust International Limited

Nippon Credit International Limited

J. Henry Schroder Wagg & Co. Limited

Société Générale

Taiheyo Europe Limited

Towa International Limited

Toyo Trust International Limited

Wako International (Europe) Limited

DKB International Limited

The Nikko Securities Co., (Europe) Ltd.

CANADA

10/11/15

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- 44387	ABX International Fund Ltd		
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- 44389	Managed Currency	\$10.20	10.2
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MONEY
Bulls

15 من الاله

CURRENCIES, MONEY AND CAPITAL MARKETS

MONEY MARKETS

Bulls seek cover

STERLING FELL, interest rates rose, and sterling financial futures weakened after Mr. John Major, the UK Chancellor, told listeners to BBC Radio on Friday that the pound would not become a full member of the European Monetary System last week-end.

UK clearing bank base lending rate 15 per cent from October 5 1989

Mr. Major's comments, coupled with action by the Bank of England on Thursday, seemed designed to prevent a sell-off of sterling this morning on disappointment that the currency remains outside the exchange rate mechanism.

The Bank of England's signal that interest rates should not be cut was surprisingly strong, but appeared to have a dual purpose. By forcing the discount houses to borrow money for seven days the authorities were not only underpinning the 15 per cent

interest rate structure but were also indicating that there was no chance of a cut in rates until after one of the market's favoured dates for ERM membership.

Reading between the lines, the authorities seemed to be sending a strong hint that the pound would not be joining the system at the week-end. Mr. Major merely took the opportunity to confirm this.

Sterling lost about 1½ cents and 4½ pence as ERM hopes were dashed, but the aim of preventing a heavy sell-off today appeared to have been achieved. Interest rates seem committed to another period of stability and short sterling futures will have to adjust to renewed doubts that rates will be cut this year.

December short sterling almost touched 86.00 on Wednesday, pointing to hopes that base rates will be 14 per cent at delivery. On Friday the contract tumbled to a low of 85.65 and may be vulnerable to further falls this week in a move by the bulls to cover long positions.

C IN NEW YORK

Sept. 7	Close	Previous
1 month	1.0015-1.0020	1.0015-1.0020
3 months	1.0015-1.0020	1.0015-1.0020
12 months	1.0015-1.0020	1.0015-1.0020

Forward premiums and discounts apply to US dollar

STERLING INDEX

Sept. 7	Previous
6.30 am	94.4
10.00 am	94.4
11.00 am	94.4
12.00 pm	94.4
1.00 pm	94.4
2.00 pm	94.4
3.00 pm	94.4
4.00 pm	94.4

CURRENCY RATES

Sept. 7	Bank	Special	European
US dollar	1.9915-1.9920	1.9915-1.9920	1.9915-1.9920
Canadian dollar	1.3225-1.3230	1.3225-1.3230	1.3225-1.3230
Australian dollar	1.5425-1.5430	1.5425-1.5430	1.5425-1.5430
Swiss franc	1.4825-1.4830	1.4825-1.4830	1.4825-1.4830
Japanese yen	161.25-161.30	161.25-161.30	161.25-161.30
French franc	6.5425-6.5430	6.5425-6.5430	6.5425-6.5430
Italian lira	1,936.25-1,936.30	1,936.25-1,936.30	1,936.25-1,936.30
Spanish peseta	166.625-166.630	166.625-166.630	166.625-166.630
Portuguese escudo	200.48-200.49	200.48-200.49	200.48-200.49
Irish punt	0.7825-0.7830	0.7825-0.7830	0.7825-0.7830
Belgian franc	36.3625-36.3630	36.3625-36.3630	36.3625-36.3630
Dutch guilder	2.2025-2.2030	2.2025-2.2030	2.2025-2.2030
West German mark	1.93625-1.93630	1.93625-1.93630	1.93625-1.93630

OTHER CURRENCIES

Sept. 7	Bank	Special	European
US dollar	1.9915-1.9920	1.9915-1.9920	1.9915-1.9920
Canadian dollar	1.3225-1.3230	1.3225-1.3230	1.3225-1.3230
Australian dollar	1.5425-1.5430	1.5425-1.5430	1.5425-1.5430
Swiss franc	1.4825-1.4830	1.4825-1.4830	1.4825-1.4830
Japanese yen	161.25-161.30	161.25-161.30	161.25-161.30
French franc	6.5425-6.5430	6.5425-6.5430	6.5425-6.5430
Italian lira	1,936.25-1,936.30	1,936.25-1,936.30	1,936.25-1,936.30
Spanish peseta	166.625-166.630	166.625-166.630	166.625-166.630
Portuguese escudo	200.48-200.49	200.48-200.49	200.48-200.49
Irish punt	0.7825-0.7830	0.7825-0.7830	0.7825-0.7830
Belgian franc	36.3625-36.3630	36.3625-36.3630	36.3625-36.3630
Dutch guilder	2.2025-2.2030	2.2025-2.2030	2.2025-2.2030
West German mark	1.93625-1.93630	1.93625-1.93630	1.93625-1.93630

THREE-MONTH EURO-DOLLAR

Sept. 7	Bank	Special	European
US dollar	1.9915-1.9920	1.9915-1.9920	1.9915-1.9920
Canadian dollar	1.3225-1.3230	1.3225-1.3230	1.3225-1.3230
Australian dollar	1.5425-1.5430	1.5425-1.5430	1.5425-1.5430
Swiss franc	1.4825-1.4830	1.4825-1.4830	1.4825-1.4830
Japanese yen	161.25-161.30	161.25-161.30	161.25-161.30
French franc	6.5425-6.5430	6.5425-6.5430	6.5425-6.5430
Italian lira	1,936.25-1,936.30	1,936.25-1,936.30	1,936.25-1,936.30
Spanish peseta	166.625-166.630	166.625-166.630	166.625-166.630
Portuguese escudo	200.48-200.49	200.48-200.49	200.48-200.49
Irish punt	0.7825-0.7830	0.7825-0.7830	0.7825-0.7830
Belgian franc	36.3625-36.3630	36.3625-36.3630	36.3625-36.3630
Dutch guilder	2.2025-2.2030	2.2025-2.2030	2.2025-2.2030
West German mark	1.93625-1.93630	1.93625-1.93630	1.93625-1.93630

THREE-MONTH EURO-DOLLAR

Sept. 7	Bank	Special	European
US dollar	1.9915-1.9920	1.9915-1.9920	1.9915-1.9920
Canadian dollar	1.3225-1.3230	1.3225-1.3230	1.3225-1.3230
Australian dollar	1.5425-1.5430	1.5425-1.5430	1.5425-1.5430
Swiss franc	1.4825-1.4830	1.4825-1.4830	1.4825-1.4830
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Belgian franc	36.3625-36.3630	36.3625-36.3630	36.3625-36.3630
Dutch guilder	2.2025-2.2030	2.2025-2.2030	2.2025-2.2030
West German mark	1.93625-1.93630	1.93625-1.93630	1.93625-1.93630

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US dollar	1.9915-1.9920	1.9915-1.9920	1.9915-1.9920
Canadian dollar	1.3225-1.3230	1.3225-1.3230	1.3225-1.3230
Australian dollar	1.5425-1.5430	1.5425-1.5430	1.5425-1.5430
Swiss franc	1.4825-1.4830	1.4825-1.4830	1.4825-1.4830
Japanese yen	161.25-161.30	161.25-161.30	161.25-161.30
French franc	6.5425-6.5430	6.5425-6.5430	6.5425-6.5430
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Belgian franc	36.3625-36.3630	36.3625-36.3630	36.3625-36.3630
Dutch guilder	2.2025-2.2030	2.2025-2.2030	2.2025-2.2030
West German mark	1.93625-1.93630	1.93625-1.93630	1.93625-1.93630

THREE-MONTH EURO-DOLLAR

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Canadian dollar	1.3225-1.3230	1.3225-1.3230	1.3225-1.3230
Australian dollar	1.5425-1.5430	1.5425-1.5430	1.5425-1.5430
Swiss franc	1.4825-1.4830	1.4825-1.4830	1.4825-1.4830
Japanese yen	161.25-161.30	161.25-161.30	161.25-161.30
French franc	6.5425-6.5430	6.5425-6.5430	6.5425-6.5430
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Australian dollar	1.5425-1.5430	1.5425-1.5430	1.5425-1.5430
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West German mark	1.93625-1.93630	1.93625-1.93630	1.93625-1.93630

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Australian dollar	1.5425-1.5430	1.5425-1.5430	1.5425-1.5430
Swiss franc	1.4825-1.4830	1.4825-1.4830	1.4825-1.4830
Japanese yen	161.25-161.30	161.25-161.30	161.25-161.30
French franc	6.5425-6.5430	6.5425-6.5430	6.5425-6.5430
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Spanish peseta	166.625-166.630	166.625-166.630	166.625-166.630
Portuguese escudo	200.48-200.49	200.48-200.49	200.48-200.49
Irish punt	0.7825-0.7830	0.7825-0.7830	0.7825-0.7830
Belgian franc	36.3625-36.3630	36.3625-36.3630	36.3625-36.3630
Dutch guilder	2.2025-2.2030	2.2025-2.2030	2.2025-2.2030
West German mark	1.93625-1.93630	1.93625-1.93630	1.93625-1.93630

THREE-MONTH EURO-DOLLAR

Sept. 7	Bank	Special	European
US dollar	1.9915-1.9920	1.9915-1.9920	1.9915-1.9920
Canadian dollar	1.3225-1.3230	1.3225-1.3230	1.3225-1.3230
Australian dollar	1.5425-1.5430	1.5425-1.5430	1.5425-1.5430
Swiss franc	1.4825-1.4830	1.4825-1.4830	1.4825-1.4830
Japanese yen	161.25-161.30	161.25-161.30	161.25-161.30
French franc	6.5425-6.5430	6.5425-6.5430	6.5425-6.5430
Italian lira	1,936.25-1,936.30	1,936.25-1,936.30	1,936.25-1,936.30
Spanish peseta	166.625-166.630	166.625-166.630	166.625-166.630
Portuguese escudo	200.48-200.49	200.48-200.49	200.48-200.49
Irish punt	0.7825-0.7830	0.7825-0.7830	0.7825-0.7830
Belgian franc	36.3625-36.3630	36.3625-36.3630	36.3625-36.3630
Dutch guilder	2.2025-2.2030	2.2025-2.2030	2.2025-2.2030
West German mark	1.93625-1.93630	1.93625-1.93630	1.93625-1.93630

THREE-MONTH EURO-DOLLAR

Sept. 7	Bank	Special	European
US dollar	1.9915-1.9920	1.9915-1.9920	1.9915-1.9920
Canadian dollar	1.3225-1.3230	1.3225-1.3230	1.3225-1.3230
Australian dollar	1.5425-1.5430	1.5425-1.5430	1.5425-1.5430
Swiss franc	1.4825-1.4830	1.4825-1.4830	1.4825-1.4830
Japanese yen	161.25-161.30	161.25-161.30	161.25-161.30
French franc	6.5425-6.5430	6.5425-6.5430	6.5425-6.5430
Italian lira	1,936.25-1,936.30	1,936.25-1,936.30	1,936.25-1,936.30
Spanish peseta	166.625-166.630	166.625-166.630	166.625-166.630
Portuguese escudo	200.48-200.49	200.48-200.49	200.48-200.49
Irish punt	0.7825-0.7830	0.7825-0.7830	0.7825-0.7830
Belgian franc	36.3625-36.3630	36.3625-36.3630	36.3625-36.3630
Dutch guilder	2.2025-2.2030	2.2025-2.2030	2.2025-2.2030
West German mark	1.93625-1.93630	1.93625-1.93630	1.93625-1.93630

THREE-MONTH EURO-DOLLAR

Mexico (13).....	138.73	-3
Netherlands (42).....	61.01	-15
New Zealand (17).....	270.76	+35
Norway (23).....	167.44	-5
Singapore (25).....	177.15	-9
South Africa (60).....	148.11	-9

INDUSTRIALS (Miscel.)—Contd | INDUSTRIALS (Miscel.)—Contd

INDUSTRIALS (Miscel.) — Contd.

[illegible]

5.87 Williams Co.....	Y	23	-21.4	-12.4	May	1952
0.99 Wills Group.....	Y	23	-21.4	-12.4	May	1952
5.89 Wilshire Sp.....	Y	7 1/2	-6.3	6.2	Oct. Feb	1951

[illegible]

LEISURE

29	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1977
30	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1978
31	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1979
32	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1980
33	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1981
34	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1982
35	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1983
36	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1984
37	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1985
38	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1986
39	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1987
40	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1988
41	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1989
42	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1990
43	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1991
44	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1992
45	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1993
46	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1994
47	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1995
48	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1996
49	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1997
50	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1998
51	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	1999
52	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2000
53	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2001
54	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2002
55	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2003
56	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2004
57	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2005
58	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2006
59	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2007
60	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2008
61	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2009
62	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2010
63	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2011
64	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2012
65	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2013
66	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2014
67	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2015
68	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2016
69	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2017
70	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2018
71	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2019
72	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec	2020</

7/DAF N V. FIS.....	7/2	1.7/10.0	8.5	June	6773
General Mtrs Halls					

Commercial Vehicles							
WEEK (High)	...	133	2.3	10.6	9.7	Jan Aug	1997
March Group	...	207	2.3	10.6	9.7	Jan Aug	1997

MINES—Contd	
Price	Week % Yr % L

[illegible]

THIRD MARKE

[illegible]

Group.....	Y	18.1	-2.1	3.
Magie Lrt. Lpy		28	-6.7	9.
Ents Sp.....	Y	3		
ya Hhgs Sp..	Y	9	-18.2	

NOTES

Exchange dealing classifications are indicated to the right of the name: α Alpha, β Beta, γ Gamma.

Where indicated, prices are given and denominated in pence. Where no price is given, prices are given, adjusted for the effect of the discount, in pounds sterling. The percentage discount and allow for value of declared discounts.

Net Asset Values (NAV's) are shown for investments in the fund, plus or minus the percentage discount or premium (Pm -) to the current pre-closing share price. Premiums assume prior charges at par value, conversion and warrants exercised if all issues occur.

See page 10 for details of the fund's investment policy.

Not listed on Stock Exchange and company not listed on some degree of regulation as listed security.

- allows for conversion of shares
- rights or restrictions only for restriction

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1978

[illegible]

16
29
Autva
Brit. P

70	Burnham Castrol 11.7
72	Conroy Petrol 11.7
29 1/2	Gaithie Res.	..... 11.7
30	Procter	..... 11.7
31	Shell	..... 11.7
32	Tucker Res.	..... 11.7
33	Ultramar	..... 11.7
34		..... 11.7
35		..... 11.7
36		..... 11.7
37		..... 11.7
38		..... 11.7
39		..... 11.7
40		..... 11.7
41		..... 11.7
42		..... 11.7
43		..... 11.7
44		..... 11.7
45		..... 11.7
46		..... 11.7
47		..... 11.7
48		..... 11.7
49		..... 11.7
50		..... 11.7

Mines

Lembo 11.7

RTZ 11.7

Service is available to every Company dealt in on a

Share Service

Following changes have been made to the Share Information Service:

Additions: BICC Capital Finance 10% Inv. Cap. Bond 2020 (Section: Financials).

Deletions: BCU Trust (Ord. & Warrants) (Investment Trusts).

Latin American Inv. Trust Warrants (Investment Trusts).

Deletions: Beatrix Mines (Mines - F.S.).

Epicure Inds. (Engineering).

Jewden-Stuart 10% Conv. Ln. '03-08 (Holding).

Kinchman (W.) (Transport).

United Plantations Africa (Overseas Leaders).

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

Continued on Page 31

NASDAQ NATIONAL MARKET[illegible]4pm prices
September 7[illegible]

Copenhagen
(33) 134441
And ask
Mikael Heiniö

MONDAY INTERVIEW

Modernist
tuned in to
the past

The composer and conductor
Pierre Boulez talks to
Andrew Clements

Throughout the 1970s Pierre Boulez was a familiar figure in London's concert halls. As chief conductor of the BBC Symphony and the New York Philharmonic, he had set about redefining musical life on both sides of the Atlantic with a crusader's zeal, attempting to transform the "museum culture" of the concert hall and drag it kicking and screaming into the late 20th century.

For more than a decade composition seemed to take second place to conducting in his career, but the kind of transformation he sought was much harder to achieve than he envisaged, and when he reduced the scale of his activities his lasting impact on programming seemed to have been negligible. Yet now that his appearances are strictly rationed, each becomes a precious event - a reminder of the way orchestral concerts might be jolted out of their blandness and routine.

Last night in the Festival Hall he conducted the Junges Deutsche Philharmonie in a concert for the South. This current celebration of postwar music, art and literature, Brave New Worlds. It was a typical Boulez programme: a work of his own juxtaposed with 20th-century classics by his teacher Messiaen, Debussy and Varèse. To understand the music of the present, he has always maintained, one must know and absorb the immediate past.

The focus of Boulez's activities as composer and conductor nowadays is the Institut de recherche et de co-ordination acoustique/musique (Ircam), the computer-based research institute buried away in the basement of the Pompidou Centre in Paris. He directs the institute's activities and those of its internationally renowned chamber orchestra, the Ensemble Intercontemporain, from a modest, functional office just around the corner from the teeming tourists of the Centre itself. After periods of disaffection and exile from his native culture, his leading position in French musical life is secured, the monument to his endeavour is all around him.

In conversation he is genial, relaxed, wittily tolerant; the fierce polemicist of the 1950s and 1960s, who rewrote musical history to his own aesthetic prescription and called for the opera houses of the world to be blown up, appears to have been supplanted by a much more open-minded though just as highly motivated and influential *animateur*.

For Boulez the composer's role has always been inseparable from that of the educator. What he organises at Ircam

mirrors on a far more lavish, institutional scale what he was doing 35 years ago in the Domaine Musical concerts in Paris, when the theatre director Jean-Louis Barrault provided the funding and Boulez planned the programmes and hired the musicians.

The function of those modest concerts was precisely the same as that of the lavish thematic series regularly mounted by Ircam, to present the music of the present day in the context of the past. "If you wish to know what the young composers of today are doing you must go to their models." That holds in the 1990s as well as it did in the 1950s.

In post-war France there was much more to do. Each Domaine season could only support four or six programmes. Boulez recalls, a maximum of 35 works a year; everything had to be "as sharp as a knife." The composers who are now accepted as the pioneers of modernism - Stravinsky, Bartók, Varèse, the Second Viennese School - were still imperfectly known; it was not until 1957, for instance, that Berg's Three Orchestral Pieces, composed in 1912, received their French premiere at a Domaine concert. Alongside such composers Boulez programmed the works of his contemporaries, the young Stockhausen, Nono and Berio, occasionally too his own pieces.

Thirty years on one could have expected audiences to have moved on too, but the early modernists still feature prominently in the Ircam programmes. That might be construed as a failure of 20th-century composers to engage with their public, in the way that previous generations had remained in touch with the late romantics. Boulez rejects that charge; there are always young people to be educated, who are hearing Bartók or Webern for the first time, and it is no use expecting the symphony orchestras to take on that responsibility while their repertoire remains so firmly rooted in the 19th century. There has become a world "not of culture but of entertainment", playing only music written between 1780 and 1900. "If museums were organised as narrowly as most concerts are today the entire collection of the Amsterdam Rijksmuseum would be contained in a single room."

Some aspects of concert-giving have changed for the better. It is a good thing, he says, that the old-fashioned grandeur and absolute rule of conductors has all but disappeared, and with them the petty rivalries of a Toscanini and a Furtwängler, each de-



'Help yourself and heaven will help you'

perate to ensure that the one is not cosseted more than the other. But until the priorities of musical life change then the motivation is commercial rather than aesthetic, with packaging and fashion taking priority.

Boulez's view of what he calls "authenticism," the performance of baroque and classical music in a style that conforms as far as possible to that of the time in which it was written, is that it is just another commercially-driven

PERSONAL FILE

1926 Born in Montbrison, S. France.

1942-45 Studied at Paris Conservatoire with Olivier Messiaen, privately with René Leibowitz.

1954 Began Domaine Musical concerts in Paris.

1955 Established international reputation as composer with premiere of *Le marteau sans maître*.

1959 Conducted Debussy's *Fêtes at Méliandré* at Covent Garden.

1970 Asked by Georges Pompidou to plan and direct the Institut de recherche et de co-ordination acoustique/musique (Ircam) in Paris.

1971-74 Chief Conductor of BBC Symphony Orchestra.

1971-74 Chief Conductor of New York Philharmonic.

1981 Performance of first version of *Répons*, utilising the technology developed at Ircam.

fashion. It is cosmetic packaging that deals with only one aspect of the performance, the sound itself.

We cannot possibly know, he says, how 18th-century musicians treated all the other aspects of a performance - rhythm, intonation and ensemble - and just what standards they regarded as acceptable. Even comparing recordings from the 1920s with those of 1990s are enough to show how expectations have changed, and how the precision of

recording, with its potential to retake passages until every detail is immaculate, has raised standards in the concert hall. Boulez's own fastidious rehearsal has speeded that evolution significantly, and he admits to hearing impressions in his own early records that he would never tolerate today.

The fashionable modes of composition, too, receive short shrift. While he is happy to concede that the constructivist style which he pioneered in the 1950s, in which all the aspects of a work were planned according to a rigorous set of rules, has passed by - "Everyone was structurally orientated then, you find it in the painting and literature of the time as well" - and that each generation has its own preoccupations, he is sceptical about current trends.

The French, he declares, have never been interested in repetitive music, though he has included the minimalist music of Steve Reich and Philip Glass in Ircam programmes, while the neo-romantics, returning to old-fashioned tonality, are dismissed as "just another Les Six." The French composers who emerged in the 1920s under the influence of Jean Cocteau with the intention of undermining the high-art pretensions of romanticism, but even such Boulezian heretics get their chance at Ircam, to work with the technology and to receive performances; the open house that Boulez keeps to the world's composers crosses almost all stylistic boundaries.

In such trenchant dismissals, however wittily and irreverently expressed, Boulez's intellectual steel seems as sharply honed as ever, and in defending Ircam's privileged position in French musical life the fierce intellectual certainty asserts itself too. While Ircam attracts money and resources from private sponsors, particularly to underwrite special projects or to supply its up-to-the-minute computer hardware - "Help yourself and heaven will help you" - the pressure for mixed funding is nothing like as intense as it would be in Britain. It draws heavily upon state

The Gulf, the Budget
and the real crisis

Mr Leon Panetta, who is chairman of the House budget committee, lent his weight last week to a Democratic proposal to impose an escalating tax on energy. The idea, of course, is to wean Americans off waste and off a bit of the deficit gently, an almost painless first step (there is an election in November, after all), with a warning of worse to come. The US faces a fiscal crisis and an energy crisis, he says, and must tackle them both.

This is one of the few sensible ideas to have emerged so far from the so-called Budget Summit: but an escalating energy tax, on any scale which would conceivably pass in Congress, will hardly live up to Mr Panetta's aims. The kind of energy tax he proposes will not change American habits, except in the very long run.

Meanwhile, the US is sending an army to the Gulf to prevent Iraq from imposing energy prices which might actually make a difference. As a result, the energy professionals are forecasting only a temporary run-up in oil prices, which will have little economic impact. This ensures that there will be a real energy crisis - but some years from now.

The escalating tax will not balance the budget, either, and nor will any other idea likely to be adopted at the summit. This quarrelsome group of opponents is now quarantined at Andrews Air Force base in an effort to make its negotiations leak-proof, but there is no secret about what it is likely to achieve. Its real purpose is to produce a flag lie to cover an agreement to amend the Gramm-Rudman deficit reduction law again. This is simply 1987 all over again, except that last time the process was given a more honest name - the Gramm-Rudman "fix".

All the same, the summit will ensure that the deficit will be a little smaller than it would otherwise have been, and this will be called reduction. In truth, as the markets have recognised for some time, the deficit is going up, not down. This looks like a disgraceful evasion, but in fact it is built in to the Gramm-Rudman law. This was described by Senator Ernest Hollings, one of



By Anthony Harris
in Washington

its original sponsors, as "a bad idea whose time has come"; he has subsequently had the good taste to disown it.

It is bad in several ways. The most important are that it tries to lay down a path for the cash deficit regardless of the economic circumstances, and that its operation is triggered not by the size of the deficit, but by a forecast of what it is going to be. The results have been just what ought to have been expected: dishonest forecasts all the time, and periodic "crises" when as a result the deficit is not actually reduced. They are periodic because in years of rapid growth the revenue is buoyant, and the deficit does appear to be shrinking; when the economy slows down, as this year, there is a nasty awakening.

The timing is deadly, because it means that the worst figures appear just when Congress is convinced that the economy is too weak to withstand a fiscal squeeze. The law is a formula for failure, and it works. Does this failure amount to a crisis, though? In economic terms, surely not.

In the current year it seems likely that the deficit will be about \$180bn instead of the target of \$100bn, which looks like a crisis, but this would increase the national debt by just 6 per cent. This means that it could actually be smaller in relation to national income than it was in the previous year.

The national debt is too big

for political comfort. It is true: but since the main result is to ensure that the retired have better incomes than they would otherwise enjoy, it is not all bad. In any case, the situation has been improving in real terms, taking one year with another, since the problem was recognised. A situation which is improving is not a crisis.

In any case, the joys of fiscal rectitude are not all they are cracked up to be. The President should ask his current favourite statesperson whether a budget surplus ensures a strong balance of payments, low inflation, or even low interest rates. She would give him a disappointing answer. And interest rates are his real concern: the President has woken up to the real US economic crisis, which is one of private rather than public debt, because his business friends tell him about it.

Mr Bush now regards getting interest rates down as more important than keeping taxes down. He imagines he can achieve this through a far from secret pact with the Fed, but Mr Alan Greenspan knows that central banks have pretty limited power to control interest rates. It is all a matter of what the markets will swallow, and what the markets are looking for, in vain, is not a cut of \$50bn in the deficit, but for some assurance that the politicians are in control of official policy. At the moment, they see nothing to convince them.

This is a true political crisis, and it seems likely to persist as long as US voters like to elect Republican administrations with Democratic Congresses.

In any case, there is no magic in the kind of interest rates cuts which could be achieved even by an ideal US government. The economy is suffering from a severe debt hangover, and as the blunt Mr William Seidman (wearing his bank deposit insurance hat rather than his thrift clean-up overalls) warned last week, it is going to get a lot worse before it gets better. The local bankruptcy score on Friday was two sizeable property developers and a regional retail chain. Just one of those days, Mr Bush, as an adoptive Texan, should know the feeling.

FINANCIAL TIMES CONFERENCES

The following conferences are among those to be arranged by the Financial Times during the remainder of this year:

WORLD MOBILE COMMUNICATIONS
24 & 25 September - London

POLLUTION MANAGEMENT
2 & 3 October - Birmingham

FT-CITY COURSE
8 October - 26 November - London

**INVESTMENT OPPORTUNITIES IN
BRITISH BROADCASTING**
9 & 10 October - London

PRODUCT STRATEGIES FOR THE 90s
15 & 16 October - London

**FINANCIAL TIMES/PRICE
WATERHOUSE CAPITAL MARKETS
WORKSHOPS**
17, 18 & 19 October, 21, 22 & 23 November
5, 6 & 7 December - London

BUY OUTS - THEIR FUTURE
23 & 24 October - London

CITY REGULATION REAPPRAISED
5 November - London

WORLD ELECTRICITY CONFERENCE
12 & 13 November - London

BUSINESS WITH SPAIN
19 & 20 November - Madrid

**EUROPEAN BUSINESS FORUM -
BUSINESS IN CENTRAL AND
EASTERN EUROPE**
26 & 27 November - Rome

PETROCHEMICALS IN EUROPE
28 & 29 November - London

WORLD TELECOMMUNICATIONS
3 & 4 December - London

**REVIEW OF TELECOMMUNICATIONS
POLICY IN THE UK**
5 December - London

**THE FOOD AND DRINK INDUSTRY
IN EUROPE**
11 & 12 December - London

All enquiries should be addressed to:
Financial Times Conference Organisation,
126 Jermyn Street, London SW1Y 4JJ
Tel: 071-925 2323 (24-hour answering service)
Telex: 27347 FT CONF G Fax: 071-925 2125

Western governments should
release strategic reserves

Anatole Kaletsky
on the oil market

encourage oil hoarding, the IEA added its *coup de grâce*: the market could get progressively tighter during the winter when demand is seasonally highest. The communiqué did not even hint that this additional turn of the screw might finally bring out government supplies.

Why are the governments of the industrialised world being so passive? First it is argued that government stocks are simply not big enough to have any impact on a market gripped by war-fear. This is nonsense. Given the increases in production already announced by Saudi Arabia, the UAE and Venezuela, the shortfall in world oil production due to the Gulf crisis amounts to 1m barrels a day at most. Government oil reserves stand at 1.06bn barrels, enough to make up for the lost production for three years.

Second, it is claimed that the strategic oil reserves are so badly run that they cannot physically get oil to market. The US reserves, in particular,

contain the wrong grades of oil, stored in the wrong places. US officials deny this, maintaining that they could pump oil without difficulty at a rate of at least 1m barrels a day. The oil might be too heavy for some refineries, but this problem should be reflected in a broader spread of prices between different grades of crude, rather than in the average price. Furthermore, the alleged problems of US strategic reserves do not extend to the stocks held by the West German and Japanese governments. These amount to 412m barrels between them. This oil is mostly stored in steel tanks readily accessible from oil refineries, not in remote caverns.

The third explanation of government inaction is the most plausible. Western governments see their strategic oil reserves as a last resort, not to be used until an actual war breaks out and threatens 10m barrels a day of Saudi and UAE output. This argument obviously contradicts the excuse that strategic oil reserves cannot be mobilised in a hurry: if oil from the Louisiana salt domes will take weeks to reach the market, surely the time to start pumping is now. But even letting this inconsistency pass, there is a flaw in the argument for waiting.

Let us assume that war does break out within the next three to six months. The volume of oil pumped from the reserves

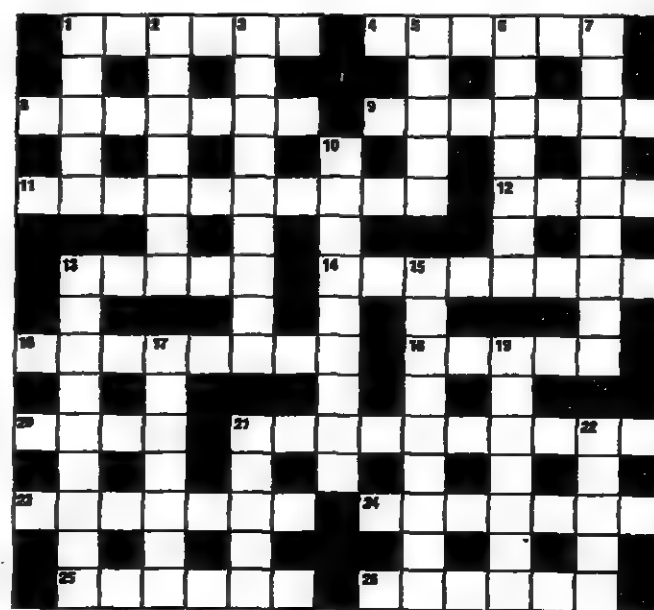
between now and then would be small in comparison with the size of the stocks currently available. Suppose, for example, that governments sold 1m barrels a day from their strategic stocks for the three winter months when supply pressure will be most intense. This would reduce strategic reserves from 1.06bn to 957m barrels after three months. If war broke out then, the 9 per cent reserve reduction would have no noticeable impact on western governments' ability to meet further shortfalls. This would be dictated not by the absolute volume of reserves, but by the governments' ability to mobilise them.

Yet if the pre-war reserve sales had any success in bringing down the price of oil, as they probably would in current market conditions, then the economic damage done by the inevitable wartime price spike would be significantly less. Not only would prices jump less high if they started from \$30 a barrel rather than \$50 a barrel, the total duration of the wartime price shock would also be much shorter.

Of course, if war never broke out, the world would be far better off if governments took immediate steps to push down oil prices. So if the third Middle East oil shock precipitates the world's third stagflationary recession, don't just blame Saddam Hussein. Blame western governments and the IEA.

CROSSWORD

No.7,337 Set by DANTE



ACROSS

- 1 Out of the office, but ready to receive calls? (2,4)
- 4 It supports a light sleeper (3,3)
- 5 Members of Italian society breaking the rules? (7)
- 9 Return journeys to the Australian bush? (7)
- 11 Get together to enlist (4,6)
- 12 Placed a cover outside (4)
- 13 Everybody's playmate? (5)
- 14 Changes course when the vessel's caught in the swell (5,3)
- 16 Yet they don't look down in the mouth (3,5)
- 18 A girl in distress sought by Longjohn (5)
- 20 Said to be some form of test (5,3)
- 21 Knotty garlic problem? (5,5)
- 23 10th meat minced and eaten (7)
- 24 Affected to have worked hard in school? (7)
- 25 Bound to procure a release from jail (5)
- 26 The coming of the Christian rich (5)

DOWN

- 1 A doctor goes round the French scene of massacre (5)
- 2 Lock-keeper comes out of the rain (4,3)
- 3 Russian capitalist (5)
- 5 A torn stub joins at the sides (5)
- 6 Fraudulent schemes in soap by-products? (7)
- 7 Deft clue I made misleading (5)
- 10 A shield cut in chosen form (5)
- 13 As playthings they have their points but can go off the rails (3,5)
- 15 Expressed sorrow about abstainer caught in expediency (5)
- 17 Ring bell on counter where travellers have to pay (4,3)
- 19 Daughters of Minos give song with uplifting finale (7)
- 21 Stop or pass on (5)
- 22 Spiteful woman traps the man with deception (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday September 22.

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FINANCIAL TIMES SURVEY

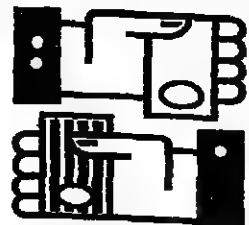
REINSURANCE

Monday September 10 1990

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● Europe's reinsurers jockey for position as 1992 approaches, Page 7

SECTION III



Some 2,000 international reinsurers gather in Monte Carlo today for the annual

'Reinsurance Rendezvous de Septembre' to discuss trends and ratings prior to the opening of the renewal season. Richard Lapper assesses the state of the market.

Underlying uncertainty

IS REINSURANCE about to become more expensive or will fierce price competition continue into next year?

Reinsurers, who meet today for the annual pre-renewal season get-together in Monte Carlo, are keeping their cards close to their chests. Underlying the uncertainty is the fact that a long term change in the nature of their industry is complicating the relatively simple market-based dynamics of the industry's pricing cycle.

On the one hand, the long-term demand for proportional reinsurance - in which insurer and reinsurer share premiums and claims in agreed proportion - is declining. Insurance companies, especially in Europe where substantial progress has been made towards a genuine free market, are becoming bigger and have the financial muscle to carry more risk without support from reinsurers. Instead, insurers are looking for more protection against so-called catastrophe risks. These are traditionally reinsured on a non-proportional basis, with insurers retaining losses up to an agreed limit and then reinsuring above that limit, dividing the total exposure into horizontal layers.

While slack demand for proportional reinsurance is aggravating problems of surplus capacity and depressing rates, increasing demand for catastrophe cover is tending to firm up rates. Moreover, the likelihood of sharp rate increases has been increased by recent losses. Increasingly, says Mr Ron Iles, chairman of Alexander Howden Reinsurance Brokers, "there is a separation between catastrophe business and conventional reinsurance."

In the last three years, reinsurers have been hit by two catastrophic Caribbean hurricanes (Gilbert in 1988 and Hugo in 1989), four European windstorms (the October storms of 1987, and three storms in January and February 1990), the San Francisco earthquake of November 1989 and finally a succession of billion dollar property and business interruption losses in the chemical, petrochemical and oil industries. Occidental (Piper Alpha in July 1988), Bayer (Uerdingen, Bavaria in February 1989) and BASF (in Antwerp in March 1989) and Phillips Petroleum (Pasadena, Texas in October 1989) suffered from massive property damage and interrupted production after explosions and fires.



Earlier this year Swiss Re published figures indicating that insured losses from catastrophes (both natural and man-made) had nearly doubled in real terms between 1970 and 1989. In 1989, insured damage from catastrophes amounted to more than \$13bn.

The string of recent losses has wreaked a savage impact on the specialist catastrophe retrocession market in London, the so-called London market excess or excess of loss market, where reinsurers buy their own reinsurance or retrocession protections. The number of losses, together with the increased speed with which claims are processed as a result of the introduction of new technology, has shattered the "spiral", an intricate network of reinsurance and retrocession arrangements by which LMX writers help protect each other's accounts and dilute the impact of big losses

over time. Hurricane Alicia of 1989 caused losses of \$1.2bn but reinsurance claims stemming from Alicia were still percolating through the spiral earlier this year.

By contrast, reinsurers and retroinsurers are paying claims on more recent losses much more quickly. Hurricane Hugo is said to have penetrated the top layers of some LMX on LMX writers within less than a year. A number of Lloyd's syndicates, specialising in the LMX business, have got into difficulties as a result. Ms Yvette Bavin, of Citicorp's insurance markets business development, says: "Claims are going through the market much faster. Most outstanding claims from Hurricane Hugo listed at the end of 1989 have now been paid and settled."

In the non-marine area, LMX protection has become steadily more expensive since 1987. Last autumn, the market was

hit by Hurricane Hugo, San Francisco and Phillips Pasadena within the space of a few weeks, throwing LMX writers into despair. Lower layers of LMX cover became prohibitively expensive, with those underwriters prepared to offer the cover charging clients up to "45 to 50 on line" (45-50 per cent of the sum insured).

Following this winter's storms, capacity on the market dried up almost completely. According to Mr Iles, as much as half the LMX market's capacity has fallen away during the past year. These developments are important for smaller players who lay off a substantial percentage of their own exposure in the LMX market. Some reinsurers are going into the renewal season open, with insurers who have had heavy exposure to catastrophes paying more. Others suggest that the rate increases will be across the board for certain risks.

much less likely to offer rates that are too low. Other underwriters who are covered will pay much more for their retrocession covers and unless they can charge more, the reinsurance cover they sell will find their margins squeezed and their profitability undermined.

Australian insurers who customarily renew their reinsurance covers on 1 July paid a basic increase of between 10-20 per cent, but considerably more than this where they had any exposure to either of Australia's two recent catastrophic losses, the earthquakes of December 1989 and the Sydney hailstorm of March 1990. Some reinsurers believe that this pattern could be repeated when the main international renewal season opens, with insurers who have had heavy exposure to catastrophes paying more. Others suggest that the rate increases will be across the board for certain risks.

But the definition of what constitutes a catastrophe is widening. Mr Graham Dimmock, manager of non-marine at Swiss Re (UK), says that the January and February storms in Europe have changed his company's attitude to the way in which it manages European windstorm peril. European windstorms are becoming more frequent and this, he says, "will have a substantial impact on the pricing of lower levels of reinsurance."

Mr Jeremy Hindle, who underwrites for Swiss Re (UK), says that reinsurers are likely to increase the lower limit above which they offer cover. Last year, for example, some UK insurers bought reinsurance above a limit of \$15m. They may be hard pressed to get the same protection this year, irrespective of the price they pay. According to one underwriter, "for the reinsurance of direct writers we are talking of retentions increasing by two or three times."

However, in other areas of the reinsurance market - proportional reinsurance, non-proportional per risk cover where reinsureds have a good loss record, as well as the facultative reinsurance of European industrial risks, for example - soft market conditions seem set to continue.

Reinsurers must fight harder and price more competitively to win business. As reinsurance becomes more catastrophe oriented, it will become a more volatile business and reinsurers will need to grow if they are to withstand the ups and downs.

Already there has been something of a shake-out, especially in London, where the bulk of smaller and medium sized reinsurers are concentrated, either at Lloyd's or in the company market. Many insurers who had really only dabbled in reinsurance quit. "We've seen the departure from the market of the innocent capacity of the late 1970s and 1980s - the sort of underwriters who had open cheque books, bags of capacity and very little underwriting experience," says Mr Nigel Harley, managing director of Sorenna, the London-based reinsurance subsidiary of the French mutual company, Groupama. More recently, some big

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Illustration: Simon Farr Editorial Production: Andrew Slade

insurers have opted to sell off or close their reinsurance operations. Britain's Legal and General sold its Victory Re subsidiary to the Amsterdam-based Netherlands Reinsurance Group in July. Explaining the sale, L&G's chief executive Mr Joe Palmer said that with-out more capital, "Victory was condemned to a steady decline. It needed to be larger."

Mr Harley predicts that the number of truly international reinsurers is certain to fall and suggests that a "first division" of between 20 and 30 genuinely international reinsurers will emerge. To join the first division reinsurers need size and premium income. "Those insurers with financial muscle are quite prepared to follow the market down knowing that the results will be bad. But they know that they can withstand the shock and that some of their competitors can't," says Mr Harley.

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REINSURANCE 2



IN THE wake of last winter's catastrophic storms in north-west Europe, reinsurers are anxiously reviewing the traditional ways in which they reinsured storm damage. Nine low pressure weather systems hit Europe between the 24 January and 26 February this year, leaving the insurance community with a bill in the region of at least \$4.5bn, more than twice as much as the \$2bn plus caused by the storm of October 1987, the worst storm in the UK for nearly 300 years.

The Lloyd's Underwriters Non-Marine Claims Office (LUNCO), which monitors insurance catastrophes at Lloyd's of London, divided this month of storms into four separate events. Storm 90A affected France, Belgium, the Netherlands, Denmark and Germany between January 24-26; 90C hit the UK on January 27; and 90D affected France and other areas of continental Europe between February 3-4. Storms classified as 90G swept over north-west Europe again on February 28.

In the UK the winds did not quite reach the speeds recorded during October 1987. But insured losses were greater, with winds in both January and February affecting a much wider area of the country than three years ago. In parts of the west of Britain the storms were accompanied by floods.

The storms had a particularly devastating impact on the London excess of loss market (LMX), in which reinsurers and retroinsurers lay off part of their own exposures. LMX underwriters were reeling from the combined impact of hurricane Hugo (losses of \$7bn

plus), the San Francisco earthquake (\$1bn plus) and the Phillips Pasadena petrochemical plant (\$1bn plus), with capacity shrinking and prices, especially for lower layer LMX covers, at all-time highs.

In the wake of the storms, capacity on the LMX market shrunk even further, with many smaller players abandoning the market. When available, retrocession covers are much more expensive. In the LMX market top level covers are now costing between 7% and 10 on line (7% and 10 per cent of insured values). Lower level covers are costing as much as 50 on line (50 per cent).

Reinsurers, too, were harder hit this time than in 1987, because insurers had ceded more business to them. The UK's two biggest domestic property insurers, Sun Alliance and Royal Insurance, which bought virtually no reinsurance in 1987 and therefore carried substantial losses on their own books, both had reinsurance protections in place this year, limiting their own net losses to \$110m and \$35m respectively from 90A. In 1987, by comparison, Royal's net losses amounted to \$125m and Sun Alliance, \$150m.

With less help from the retrocession market in 1991, reinsurers are likely to offer much tougher terms to their clients. Many smaller London-based reinsurers, who depend heavily on the retrocession market, will experience some difficulty in assembling the capacity to write the same volume of business as last year.

Although the bigger European reinsurers have the financial muscle to compensate for

Damage in the City of London (left) and Windsor (below) just part of the destruction which saw staff at Sun Alliance (right) working flat out to clear the back log of insurance claims and encouraged companies to review the way storm damage was reinsured



DISASTERS

Taking another look at how to weather the storm

reduced capacity at higher levels, they are also likely to change their approach to windstorm risk.

Mr Graham Dimmock, manager of non-marine at Swiss Re (UK) says: "Our capacity has not necessarily been reduced. But the winter storms have

changed our attitudes to the way we manage the risk."

In the 1991 renewals, reinsurers are likely to increase the lower limits above which they make reinsurance available.

"We will limit the amount we write at lower levels, but write much more at higher levels of

the programme," says Mr Dimmock. With reinsurers taking bigger net lines themselves, they are likely to demand that direct writers also carry more risk on their own books.

Prices for direct reinsurance will increase. Swiss Re estimates that upper end of reinsur-

ance programmes layers will at least double in price in 1991 (from an average of between 0.7 and one on line at January 1 1990). "I'd be surprised if anyone was offering below two on line for European windstorm business," says Swiss Re (UK)'s underwriter, Mr Jeremy

Hindle. For lower layers, increases are likely to be much greater, with prices rising by as much as 300 per cent. These increases follow substantial rises over the past three years. Rates increased by up to 600 per cent between 1987 and 1990.

These changes, however, are more than just a market reaction, based on short-term trends in capacity, an 87J was regarded as a one in 300 year event and rated accordingly. "They are joking in the reinsurance market that 87J was the end of one 300 year cycle, 90A was the beginning of the next," says Mr Tony Dodd, treaty underwriter with the Commercial Union subsidiary, British and European.

However, reinsurers now regard catastrophic windstorm as a potential one in three year event and must begin to rate it accordingly. There is a growing feeling that weather patterns in north-west Europe are changing.

Some climatologists suggest that over the past 10 years the weather in north-west Europe has become increasingly unstable and that this is linked to the greenhouse effect, with sharp changes in the difference between the temperature of land and sea leading to greater instability. "There is no doubt that the weather is taking some extreme forms," says Mr Dodd.

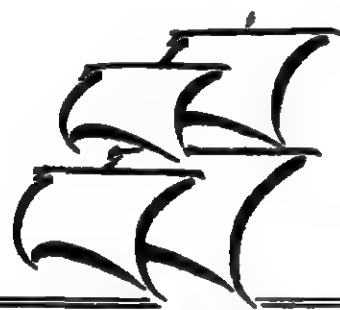
In response, reinsurers are beginning to examine their aggregate windstorm exposures in the same way as for earthquake risks. According to Mr Dodd, the movement to actively seek windstorm accumulation figures for insurance companies, in both the UK and elsewhere in Europe, "is gain-

ing momentum." By early 1991, it is expected that direct insurers will be asked to provide information detailing the storm exposures of their own clients to their reinsurers.

Another issue worrying reinsurers is the way in which people are more likely to claim on their insurance policies, a factor which one underwriter describes as "consumer inflation." Reinsurers were particularly disturbed by certain aspects of the claims handling process and believe that insurers may have actively encouraged insurance claims by their post-storm advertising campaigns. Reinsurers have appointed two firms of loss adjusters to investigate the claims handling process after 90A. This hints at a possible divergence of interest between insurers, whose post-storm advertising was designed to demonstrate the quality of after sales service and lift their share of a highly competitive market, and reinsurers, who are striving to limit claims costs. This divergence is particularly important bearing in mind the way windstorm is reinsured on a non-proportional excess of loss basis as opposed to a proportional basis, in which insurer and reinsurer share premiums and costs in proportion.

Whereas proportional business is written on a "follow the fortunes" basis, with reinsurers contractually obliged to meet all claims, non-proportional reinsurers are only obliged to make payments on claims that the original insurer had to make according to the terms of the original policy.

Richard Lapper



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REINSURANCE 3

III

Chris Clarke assesses the impact of rising marine liability claims

P & I clubs under pressure

PROTECTION and indemnity (P & I) Clubs and their reinsurers, which handle marine liability insurance, have been facing rising claims since 1984-87. The pressure comes from two sources: first, the cost of oil pollution liabilities has risen enormously since the Exxon Valdez ran aground in April 1989; second, there has been a secular rise in smaller claims, for losses other than oil pollution, since two or three years earlier.

With reinsurance rates rising as a result, last autumn the clubs had to announce rate increases of 25 per cent or more for the 1990 renewals and make substantial supplementary calls on members, some going back to the 1987 year.

Under the P & I club arrangements, claims up to US\$1.6 million are covered by the individual clubs. From \$1.6m to \$12m, they are pooled among the International Group of P & I Associations. Above \$12m, the International Group reinsures claims up to \$1.25 billion with market excess of loss underwriters on an interna-

tional contract led in the London market.

Within that excess of loss cover, claims for oil pollution liabilities are limited to \$500m, raised from \$400m in February this year, when a further \$200m of supplementary pollution cover was made available to individual clubs on a market arrangement. Around 60 per cent of Group tanker tonnage is covered by this supplement.

Above the \$1.25 billion limit, non-oil pollution claims would theoretically revert to the clubs' pooling arrangement, though that limit has not yet been reached. Individual clubs would contribute to the excess on a proportional basis. Clubs representing around 80 per cent of Group tonnage have taken out further excess of loss market cover for \$300m to protect their individual share of any such claims.

Some of the clubs, particularly smaller ones, also purchase treaty reinsurance to protect their share of pool claims between \$1.6m and \$12m, and even their own retentions below \$1.6m.

On the oil pollution side, the grounding of the Exxon Valdez in Prince William Sound produced the largest ever marine pollution liability, with Exxon paying out more than \$2 billion in the first season on clean up and compensation, with considerably more to come as civil and criminal lawsuits grind on.

At the time of the incident, oil pollution cover was limited to \$400m, but even that was three times larger than the previous highest claim, for the explosion of the Betelgeuse in Bantry Bay in 1978.

Since the Exxon Valdez incident, there has been a succession of major oil spills, including the American Trader, off prime beach property just south of Los Angeles, the Mega Borg, off the coast of Texas, and the Khark V and the Ara-

gon, off the coast of north Africa. There have also been innumerable smaller spills in New York harbour, right under the noses of the world's media.

This has led to "a very sub-

stantial increase in exposure" since the Exxon Valdez spill, according to Mr John Riley of Tindall, Riley & Co, London, managers of the Britannia Club, and a member of the International Group's reinsurance sub-committee. "Attitudes in the US have hardened considerably. The standards expected of the owner and the stan-

Reinsurance rates are certain to rise when the clubs start to discuss renewals with reinsurers

dards expected of clean up operations have both hardened. Consequently, costs are very much higher than two years ago."

The political response has been equally severe, with the

US shortly to approve a new oil

spill liability and compensation

law which greatly increases

federal liability limits and does

nothing to curb more draconian

regimes in individual

states, some involving unlimited

liability.

There are parallels with US

onshore pollution legislation,

with the introduction for oil

spills of strict, and joint and several liability, with limited defences and continuing confusion about who counts as a "responsible owner". However, much remains to be determined by detailed regulations, which have not yet appeared.

Mr Riley does not see the

new law greatly changing the

situation on exposure and li-

ability, because it is already dif-

ficult for an owner in a major

spill to avoid charges of negli-

gence. "In practical terms, it

has been virtually impossible

for an owner to limit liability,

because the courts would not

allow it." However, he points

to the question of how to put

monetary figures on damage to

natural resources. "The whole

concept of damage will be wid-

ened," he says.

If oil spills have been the

spectacular part of the clubs' claims experience, an accumulation of smaller claims has squeezed their premium income just as much. Pool claims in the \$1.6m-\$12m region have risen from \$60m in 1986 to an expected figure in excess of \$200m in 1989. Most club managers and agents agree that the root cause is the revival in shipping activity since 1986. Beyond that, opinions differ on the specific factors at work.

Last autumn, Mr John Rowe of Charles Taylor, managers of Standard Club, listed the poor condition of ships being brought out of lay-up; sub-standard crews; increased asset values in cargoes and dock facilities; faster claims settlement procedures; rising legal costs, leading to more out of court settlements; and the failure of rating on vessels' past records to adjust sufficiently quickly to the increased level of activity.

Others have pointed to reduced crew numbers, faster sailing, higher repair costs and higher court awards. Mr Luke

Readman, of agents Thomas Miller P & I, associated with the UK Club, emphasises that the claims increase did not stem from a single factor. "It is not true that all ships are sub-standard and not true that all crews are poorer. Three big oil spills, the BP Nautilus, the American Trader and the Mega Borg, all occurred in six months in the US, but had no common factor."

Mr Readman points to the accidental factor in rising shipping activity as a key to the claim trend. As for the future, he feels that "there is no reason to see logically why claims should revert to their mid-1980s level."

In that context, reinsurance rates are certain to rise when the clubs start to discuss renewals with reinsurers. The reinsurance has to be sewn up before the clubs discuss their own 1991 rates with members at the end of the year. Mr Riley expects to see "a significant hardening", with underwriters hit by a number of liability losses this year and "very wary of the risk".

New pollution laws could open the door to large claims

Court battles over the costs of cleaning up

The insurance market in London and continental Europe is holding its breath, hoping that pollution law will not open the door to claims on the scale of those related to asbestos.

Policy holders, meanwhile, are equally aghast at the scale of clean-up costs and at the infinitely expensive scope of liability in US courts.

They see little choice but to try the insurance route to protect themselves from massive losses or even bankruptcy.

They are even employing a new professional, the insurance archivist or archaeologist, to dig up old policies that might protect them after an untimely acquisition.

As far as the policyholders' liabilities are concerned, virtually any commercial enterprise

is now at risk.

Liability under the 1980 "Superfund" Act (CERCLA) and its 1986 reauthorisation (SARA) is strict, joint and several, and retroactive.

Innocent party defences have proved notably ineffective and anyone with even the most tenuous connection with a contaminated site may be liable for 100 per cent of the clean-up costs.

Policyholders have sought insurance under their general liability policies. Insurers have argued, among other things, that contamination that occurred gradually, over many years, can not be covered and that Government-ordered clean-up costs do not constitute "damages" under the policies.

From the early 1970s, policy

wordings were introduced that limited cover to "sudden and accidental" pollution, in the hope of excluding "gradual" effects.

The courts, however, often chose to interpret "sudden and accidental" to mean simply "unintended and unexpected", without any reference to abrupt accidents.

In 1986, the US direct insurers therefore introduced absolute pollution exclusions, which have so far been upheld in court.

A few cases on the principle of cover under pre-1986 wordings have reached as far as state Supreme Courts, the highest courts that can rule on insurance coverage, with half a dozen such verdicts going either way and both insurer and policyholder attorneys claiming favourable outcomes as setting the pattern for the future.

The clean-up costs in the underlying cases run to tens and hundreds of millions of dollars per site.

At the smaller end, the US Environmental Protection Agency estimated in 1986 that around 400,000 underground storage tanks, containing relatively harmless substances, like gasoline, were leaking in the US. These might cost on average \$1 million per tank to clean up. Hazardous waste sites can be much more expensive.



Mopping up begins after the Exxon Valdez spill in Alaska

So far, a few cases have arrived at the stage where insurers have to pay out. If the court decides that they must pay, the reinsurance markets will face claims running into billions of dollars.

Despite different legal systems, it would be foolish to underestimate the speed at which Europe is moving towards the US model. The draft EC directive on civil liability for waste, expected to emerge as law next year, will bring many of the liability features of CERCLA to Europe. Parliamentary committees have proposed compulsory

insurance to cover these liabilities and a wider directive on civil liability for the environment in general is set to follow.

The asbestos analogy is instructive in two ways. First, insurers did not predict the colossal scale of asbestos awards. A decade or so later, with perhaps up to \$4 billion worth of bodily injury awards already in, the number of claims is still growing.

Second, the hapless direct insurers, particularly in the London market, have had a hard job convincing some reinsurers that they have to hand

over the vast sums they are being asked for.

Mr Sebastian Salama, a consultant to London brokers Alexander Howden who is assisting the London market's Asbestos Working Party to accelerate recoveries from overseas reinsurers, believes that because continental reinsurers have been less exposed than their British counterparts to US law, they find it difficult to comprehend the enormous awards being made.

"When they keep getting claims with a lot of noughts at the end, they want to know what this is about," Mr Salama

says, adding that French reinsurers describe such rulings as "ces décisions fantaisistes".

But if the direct insurers and reinsurers think the asbestos bodily injury claims are bad, they have still got asbestos property damage to look forward to. It is planned to remove asbestos containing material from 35,000 public schools in the USA and consideration is being given to taking it out of some 700,000 public buildings.

If US courts adopt the same philosophy on these, says Mr Salama, they will dwarf what is being paid on bodily injury. "Talking about property damage reminds me very much of the early days of bodily injury. No-one imagined we would be dealing with so many cases. People kept saying it had reached a peak, that it would go down. It never did."

As far as future environmental claims are concerned, Mr Salama feels that market attitudes have hardened considerably in the light of the asbestos experience.

Insurers are fighting much harder to resist liability. But if key US judgements go against them, "the market will be much better organised than it was for asbestos. There will be better dialogue between the London and European reinsurers."

Chris Clarke



MERCANTILE & GENERAL

REINSURANCE

REINSURANCE 4

A sharp contraction in capacity is predicted, says Trevor Petch

Turning point for London

THE 1987 underwriting year may have marked a turning point for London market reinsurers.

The October storms in Northern Europe, known in the market as catastrophe 873, represented the largest single weather loss in insurance history and a vapour cloud explosion at the Hoechst Celanese factory in Pampa, Texas, one of the largest single fire losses.

Despite these incidents, however, Lloyd's of London reported an overall profit for the year of \$893.8m compared with \$1,013.3m in 1986.

It is unlikely to do so well for some years to come, for much worse was on the way. The marine market suffered its largest ever loss, the destruction of the Piper Alpha oil rig in the North Sea, in October 1988. Hurricanes Gilbert and Joan in that year were merely a foretaste of the \$4bn cost of Hurricane Hugo in 1989.

In the same year, underwriters also paid out for earthquakes in San Francisco and Newcastle, Australia. Following hard on the heels of a fire at the Norco refinery in the US in 1988 came major fires at

Philips Petroleum's refinery in Texas, a BASF factory in Antwerp and a Bayer plant in Germany in 1989. For the marine market, there was the Exxon Valdez oil spill, while aviation losses totalled \$1.3 bn. By the end of the year Lloyd's catastrophe classification had reached 884F.

As if all this was not bad enough, 1990 began with two storms in Europe, catastrophes 90A and 90D, each of which was at least comparable with 87J, which was supposed to be

Writers of direct business relied on cheap reinsurance

a "once in 20 years" event.

The impact of this string of disasters on the market has been unprecedented. Piper

Alpha penetrated the successive levels of reinsurance protection extremely quickly, not least due to centralised and automated claims handling.

As some underwriters specialising in reinsuring other

reinsurers - the XOL on XOL or reinsurance spiral underwriters - found themselves paying for the same loss in different directions, the limits of their own protection were exhausted by May 1990, only 18 months after the event, compared with 5 years for the 1985 Hurricane Alicia. Piper Alpha is only the first of a series of nine catastrophes which entered the spiral between October 1988 and the 90D storms of February 1990.

The implications are profound. Writers of direct business, especially in the crowded marine and aviation markets, have increasingly relied on the availability of cheap reinsurance to cover the business, which they know they are writing at prices that are unjustifiably cheap.

Excess underwriters in Lloyd's and the London com-

pany market have found themselves simultaneously funding claims as never before while reinstatement of their own reinsurance protection has become unobtainable or prohibitively expensive. Mr Richard Outwaite, underwriter of Lloyd's syndicate 317/661, remains one of the sharpest observers of the marine insurance scene despite his well publicised and extremely expensive involvement with writing run-off contracts for other syndicates in 1981-82. This year he reported: "It is not uncommon to see excess catastrophe reinsurance contracts being placed at premiums ten times those which were paid two years ago and even so, proving difficult to place at that price."

A sharp contraction in capacity is almost universally predicted for 1991, but there is

no certainty that this will have a trickle down effect on primary insurance rates. Reinsurance is a global industry and few events (if any) have an equally severe impact on all sections of the market, even at the highest levels of retrocession. Thus there was no general hardening of rates after 87J because it had little commercial effect in the US. Hurricane Hugo partly evened up the transatlantic divide, but some US companies escaped significant exposure to that as well. A lot of competitive pressure needs to be squeezed out before contraction at the top of the spiral has an effect on premiums at the direct level, and even then the effect may only be short lived.

Nowhere is this more apparent than in the aviation market. The last good underwriting year was 1988. Thereafter,

insurance buyers were able to demand - and obtain - cover at a much cheaper rate. From 1987 to 1989, losses exceeded premium income for the market as a whole, but rates continued to fall. Reinsurers bore the cost but the Lloyd's aviation market returned only slightly reduced profits in 1987 that it had in 1986, \$246.2m as opposed to \$266.3m, but is unlikely to do so for 1988 and 1989. One direct syndicate, which had cover for \$58.6m excess of \$400,000 for any one loss in 1986-87, succeeded in buying \$104.99m excess of \$10,000 for relatively little more premium in 1989-90.

Global aviation premium for 1990 is in the region of \$300m, less than a quarter of the 1988 level. Annual claims in the interim have been in the region of \$1bn. Even this cash figure conceals a further effect-

ive price cut in early 1989 many buyers successfully pressed for the insured period to be extended from one year to 18 months, contracts which are due for renewal next month.

Some underwriters see this as a window of opportunity for a rate increase. Their aim will not be assisted by the fact that by the end of August there had been no major losses involving Western-built aircraft in the developed world.

The combination of long

Global aviation premium for 1990 is around \$300m

term overcapacity and cheap reinsurance appears to have combined to produce a qualitative change in the structure of the business which will be difficult to overcome and leaves only losers among reinsurers.

Aviation insurance buyers increasingly intervene in the reinsurance market directly through captive insurance

companies or airline mutuals. This has further exacerbated competition at a time when potential losses are continuing to increase.

Many of the world's airlines are becoming old and frail. The US represents a permanent high risk area because of its legal liability system. Although many risks are excluded in aviation policies, underwriters are forced to assume the costs of defending the clauses against actions designed to remove this protection. Further litigation over pollution looms, while the risks of terrorism show no sign of abating.

London company market aviation underwriters are currently discussing aggregating capacity into an aviation pool on US or continental European lines, but a reduction in capacity does not appear to be a feature of the plan.

London already boasts two aviation consortia: Aviation & General Insurance Co Ltd and British Aviation Insurance Co Ltd, founded in the 1930s. Both are jointly owned by composite insurers, who compete against them with their own underwriting operations.

Trevor Petch profiles Lloyd's

Adapting to change and competition

DURING the late 1980s the changing structure of demand for industrial insurance, sharp competition for marine and aviation accounts and an equally aggressive quest for market share in UK personal lines and motor business, left Lloyd's not only increasingly dependent upon reinsurance but also increasingly seen as a reinsurance market.

Underwriters found it difficult to fill their syndicates' capacity while maintaining a premium rate likely to yield an underwriting profit.

All syndicates were also faced with the loss of one of their main advantages in former times: a low cost base. Increasing costs of regulation - the legacy of the scandals of the late 1970s and early 1980s - as well as heavy investment in new technology increased expenses. Competition, too, had a knock-on effect, as insureds demanded improved

service, particularly in speed of claims payment.

The cost of US liability business escalated as US court awards became increasingly punitive and all-embracing. As losses on old years already closed under Lloyd's three-year accounting system increased, new rules in 1984 prevented underwriters from taking an overcautious attitude to the level of reserves that should be provided when closing their accounts. Those unwilling to make a precise estimate on the basis of the information available often chose instead to leave the account year open. In 1989, 92 syndicate years were in that state, a reduction of 115 a year before, at least partly as a result of measures introduced by Lloyd's.

Despite all these difficulties, a series of years relatively free from natural catastrophes and other major losses gave Lloyd's a good run for its names'

money, even if the US liability problem tended to be somewhat disguised by the concentration of the oldest risks in a few hands by the notorious "run off" contracts placed in 1981-82 with Mr Richard Outwaite's syndicate 317/661 and others, which have given rise to some of the worst disputes between underwriters, and between underwriters and names, and which seem likely to continue to damage Lloyd's reputation for years to come. Current profits were also bolstered by the controversial use of so-called time and distance policies to enable benefits to be taken by, in effect, discounting reserves against anticipated future losses.

The syndicates yielding the highest returns in those lucky years were the specialist excess of loss (XOL) and London Market excess of loss (LME) syndicates. Even more rarefied was the atmosphere breathed by the XOL on XOL writers, syndicates who reinsure syndicates much of whose business is reinsuring other syndicates.

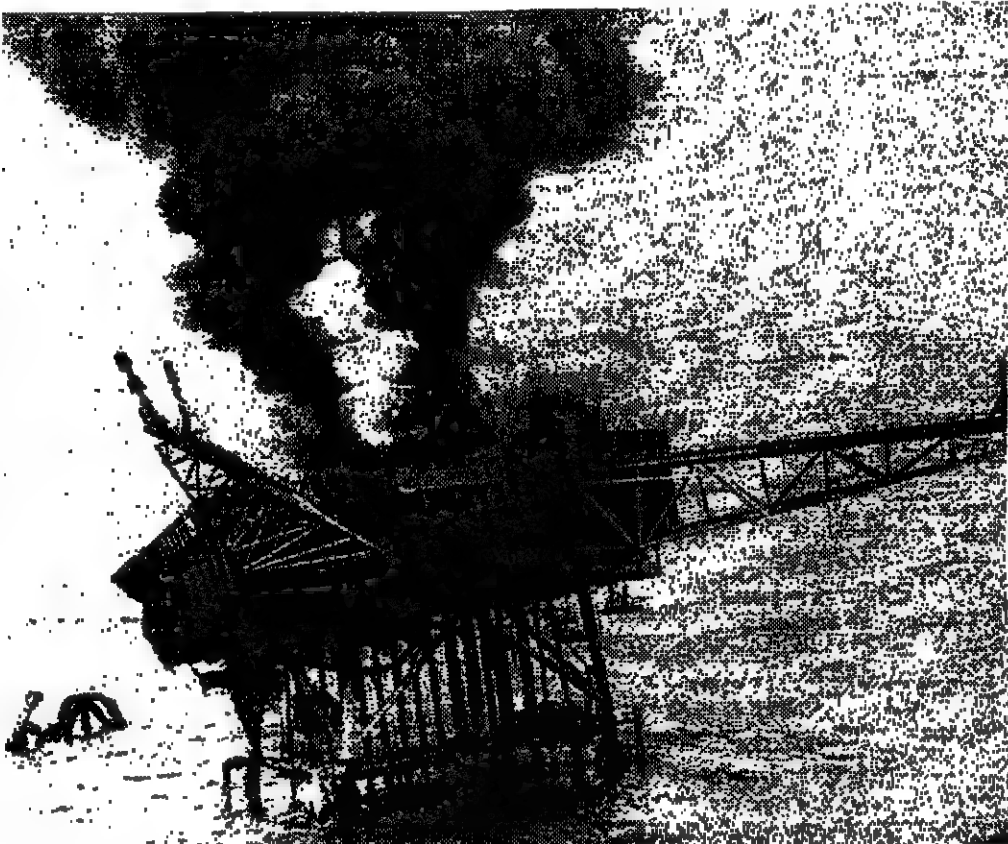
The writing began to appear on the wall in 1987, with the October storms in Europe and the explosion at Hoechst Celanese in Texas, and was followed by a succession of natural catastrophes, major industrial fires, oil rig losses, air crashes, and shipping disasters.

Some XOL writers were already feeling the effect of the 1988 loss of the Piper Alpha drilling rig in their 1990 accounts, a disturbing sign of the implications of a rapidly accelerated payment system.

Piper Alpha losses were said to be penetrating the top of some XOL writers' own reinsurance protection after only a little over a year, roughly at the same time as Hurricane Alicia losses were, but Hurricane Alicia was in 1983.

Other XOL specialists still featured among the best performing syndicates for the 1987 year, but none are likely to do so for 1988.

The market has begun to contract with a vengeance. Gooda 298, a 100 per cent XOL syndicate which had its whole account, rig and XOL on XOL accounts all hit by Piper Alpha, withdrew from the market at the beginning of 1990 following a massive defection of names. Merrett 418/417 withdrew from marine XOL on XOL, and 421 from all non-marine XOL on a considered



Piper Alpha losses penetrated some XOL protection after only one year

rather than enforced basis at the same time.

By May, when the 1990 storms were into the XOL on XOL spiral, the eighth event to hit it within two years, the non-marine LME market was being described as "virtually dead", and there were fears that cash flow problems were so great that some writers were accepting more business in reinstatements than they could find retrocession cover for themselves.

One underwriter has predicted that the number of XOL specialists would halve to 20 by 1991.

Among a group of marine syndicate amalgamations announced in the middle of the year were a number which wrote significant proportions of XOL business.

At Lloyd's AGM, the chairman of the non-marine and aviation underwriters' committee were united in their expectation of an imminent reduction in reinsurance capacity.

Lloyd's has taken a number of measures to attempt to attract a new flow of hat direct business. This year it permitted personal lines business to be written under certain conditions through non-Lloyd's brokers or directly through syndicate-related service companies. Similar measures adopted for the motor market appear to have been effective in halting the decline in its share of the UK motor market, which recovered to 20 per cent in 1989 after falling from 16 per cent in 1987 to 14 per cent in 1988.

A proposal to remove the distinction between marine, non-marine and aviation business was primarily designed to increase the flexibility of Lloyd's underwriters to offer package policies to multinational corporations. Another priority is business from non-UK European sources, at present only 8 per cent of Lloyd's premium income. Historically, the outlook of both underwriters and Lloyd's brokers has been predominantly Anglophone.

Consideration is to be given

in future to accreditation of foreign brokers. The large Lloyd's brokers set up a flagship facility for Italian direct business in 1988, and this year a representative office was opened in Germany, although it has encountered teething troubles, while in June 88 syndicates formed a joint venture with Sun Alliance to offer a market of European industrial risks, the first such co-operation with a composite insurer. Trevor Petch is Editor of the Financial Times newsletter World Insurance Report.

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INTERVIEW: Jim Payne, E W Payne Companies

Integrity of the business is essential to its future

Lynn MacRitchie

The fact that the market was "fluid in the extreme" would give a number of people "a lot of opportunity." In spite of the battering, with more claims, many of "astronomical size," paid in a shorter period of time than ever before by a system which had neither anticipated

The reinsurance broking community may follow the tendency of the direct market and

Bain Clarkson formed its new European division offering general brokerage, financial services and credit insurance in April this year, deputy chairman, Mr David Berliand explained. It already had offices in Greece, Switzerland, France, Sweden, Ireland and Belgium.

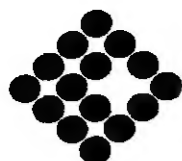
and the Policy Signing and Accounting Centre (PISAC) together with the London Insurance Market Network (LIMNET) and the ELASS system had already improved the speed and accuracy of much claims advice and settlement work. Greater efficiency means lower costs for insurers and brokers with improved service levels for their clients.

The reinsurance broking community may follow the tendency of the direct market and

A high-contrast, black and white photograph of a young child's face. The image is heavily shadowed and grainy, with a dark, textured object (possibly a hat or blanket) covering the top and sides of the head. The child's face is partially visible, showing dark eyes and a dark mouth. The overall appearance is that of a low-quality, high-contrast scan of a photograph.

Healthy competition is necessary and useful. But SCOR is looking beyond that, seeking access to new markets by teaming up with insurers. Loyalty, rigor, and frank, trusting professional relationships too can be a source of mutual profit.

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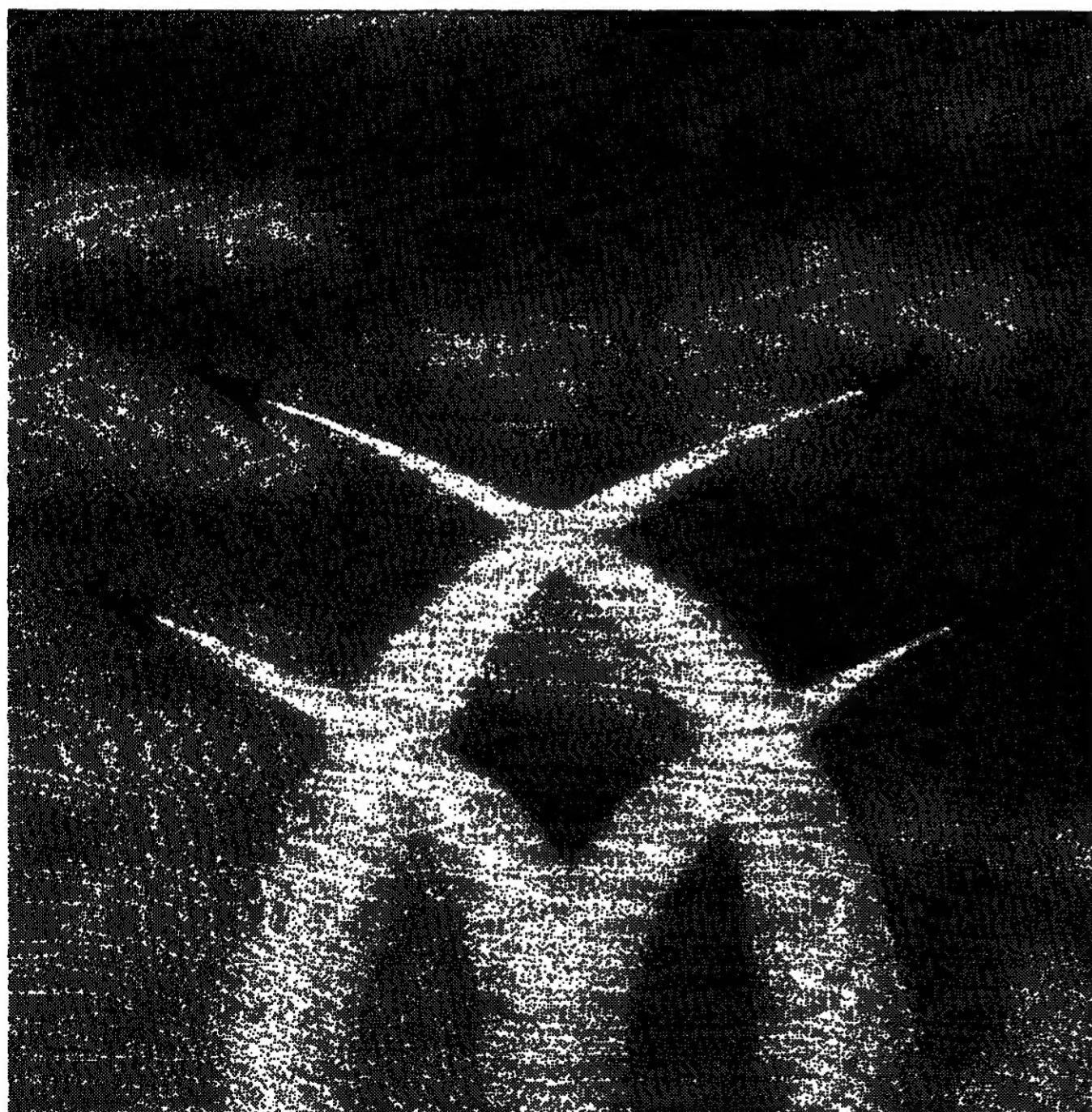
Stockholm Reinsurance Company Limited of Stockholm, Sweden takes pleasure in announcing the acquisition of National Underwriters (Reinsurance) Ltd., Bermuda, which as a wholly-owned subsidiary will be re-named Stockholm Re (Bermuda) Ltd. In connection with the acquisition, the share capital of the Bermudian company will be increased to US dollars 20 million.

The President of the company will remain Mr James G. Parkinson, assisted by Mr Peter Woolf, Vice President—Property Underwriting and Mrs Marilyn Feldman, Vice President—Marine Underwriting. The company will continue to concentrate its portfolio in all classes of Property, Marine and Aviation accounts, worldwide.

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REINSURANCE 7

Trevor Petch looks at how Munich Re and Swiss Re are preparing for increased competition in the run-up to 1992

Europe's reinsurers jockey for top position

DISSATISFIED with extreme short term fluctuations in the availability or price of cover, risk managers for large multinational corporations in the mid-1980s began to look for a more stable market. Tax considerations spurred growth of captive insurers, which themselves encouraged new approaches to self-financing methods, initially for lower level and more easily predicted risks, but increasingly for catastrophic or unquantifiable risks such as product contamination or computer tampering.

As a result, major insurance purchasers are demanding more sophisticated programmes backed by an array of loss control and financial services. These, so the conventional wisdom goes, can be supplied only by the largest insurers. Simultaneously, increased use of alternative markets has reduced the flow of 'bread and butter' business to direct insurers, while the trend towards concentration of elements of a global industrial production process in single plants has led to a rise in insured values and exposure for loss of profits and business interruption covers. This has tended not to be reflected in technical premium adjustments, despite the warnings provided by the fires at Bayer's plant at Oedingen and BASF's Antwerp factory in 1989.

The single European market gave a further impetus to insurance concentration, ushering in a wave of merger and acquisition activity as companies strove to protect their domestic markets, gain a foothold in new ones, or pursue a perceived imperative to achieve 'global mass'. A trend towards larger direct insurers, better able to retain a larger proportion of their risk, demanding less of the tradi-

tional proportional reinsurance covers and seeking more protection for catastrophic and aggregate losses, has obvious implications for reinsurers, despite the fact that in Europe, there has been freedom of services in reinsurance since 1984. At the simplest level, the effect is likely to be an intensification of the peaks and troughs of the reinsurance cycle. Reinsurers, too, may find that a critical mass is required for long term presence, especially as there are signs that retrocession capacity is beginning to shrink.

The stimulus that this jockeying for position gave to competition added to downward pressure on premium rates, particularly for industrial covers. This trend is particularly apparent in Europe, where Swiss Re's board of directors noted as long ago as 1985 that, with regard to natural catastrophe, "it is obvious that these risks are being underestimated." By 1987, the board commented that 1992 was beginning to affect industrial business, "precisely (that) which has repeatedly brought unsatisfactory results for years in both Property and Casualty insurance," and hoped this would not lead to a further erosion of premium levels.

Munich Re was warning of "exaggerated and unjustified" competition in the German fire and fire loss of profits sector as

long ago as 1984. Munich Re has also bemoaned a surfeit of reinsurance capacity which has lasted over a decade "put up indiscriminately and with insufficient knowledge, this situation further aggravated by the activities of international firms of brokers."

Despite believing that reinsurers have few methods at their disposal other than increased selectivity to achieve a speedy improvement in results if the direct market itself is making heavy losses, Munich Re is committed to maintaining itself as a pure reinsurer uninvolved in direct business. It has, however, expanded its provision of services in such fields as risk management, marketing and training and staff organisation, and data processing. International Insurance Consultants in Munich, and the Munich American Service and International Corporations in the US offer clients advice on placing facultative and compulsory business and other claims and consultancy services. In 1988 it established a joint venture in London with SG Warburg, Munich London Investment Management Ltd, to advise on global financial placement. Risk spreading has tended to be through geographical expansion, most recently with the opening of new offices in South Korea, Greece and Turkey in 1989. It has also taken



Dr. Walter Diehl, Chairman of Swiss Re; right, the head office of Munich Reinsurance

steps to provide reinsurance cover for captives and other alternative markets. Its most recent annual report said that it did not share a pessimistic view of the future.

Like Munich Re, Swiss Re has also progressively pruned its portfolio, particularly with regard to US liability exposure. Its chairman, Dr. Walter Diehl, said in 1988: "Our traditional product, reinsurance, is progressively being expanded into a varied and client oriented package that covers reinsurance and diverse services." During 1987 and 1988, Swiss Re bought or set up 12 service companies, including one of the world's largest captive management groups, the Bermuda-based Reiss Organisation, loss adjusters Thomas Howell Selfe and five computer services companies. In 1989 services turnover had reached SF186m (£78.5m), but the company reported that its information services subsidiaries had yet to achieve their goals.

Where Europe's two largest reinsurers differ radically is in their strategic approach to involvement in direct business, which Munich Re continues to eschew, but Swiss Re is

expanding. In 1985, its direct business represented one third of consolidated worldwide premium income, 85 per cent of it drawn from West Germany. In 1987 it bought two direct writers in Spain and one in Australia, followed in 1988 by Lloyd Adriatico, which had 1988 premium income of L514bn (£268m) making it the seventh largest insurer in Italy. By 1988, direct business represented 45 per cent of total premium income, just short of Swiss Re's aim of 50 per cent.

With reinsurance results expected to become more volatile in response to changes in the underlying structure of the industry, and little scope for enforcing increases in premium to compensate, an increased proportion of direct business in theory might offer a more stable stream of income. Experience so far, however, indicates that Swiss Re continues to do better at its core business. Between 1984 and 1988 inclusive, direct premium income rose by 53 per cent while reinsurance premium fell by 16 per cent. Consolidated profits from reinsurance subsidiaries almost doubled over the same period



to SG186m (£88m). By comparison, profits from direct insurance subsidiaries increased by only 38 per cent, representing 19 per cent total profits in 1988 as opposed to 25 per cent in 1985 despite the 58 per cent increase in premium volume.

Nor has Munich Re performed at all badly: from an increase in reinsurance premium income of 13 per cent over the five years to June 1989, it generated a 33 per cent increase in pre-tax unadjusted profit. Munich Re said last

year that it was confident of its ability "not only to adjust to profound and far-reaching changes in markets but also to make these changes the source of innovative developments." Swiss Re would doubtless say much the same.

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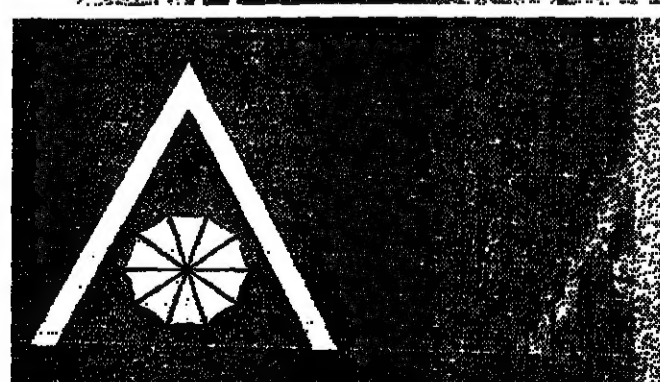
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REINSURANCE 8

Richard Lapper on a sophisticated insurance alternative

Growing appeal of captives



Dublin's financial services centre aims to attract European captive subsidiaries of Japanese and US companies

AS MANY companies in various industrial and service sectors begin to create their own 'captive' insurance subsidiaries, a sophisticated alternative insurance market along US lines is beginning to emerge in Europe.

The development is increasing competition in the market for commercial and industrial insurance and is adding a new dimension to the strategic choices faced by Europe's insurers, reinsurers and brokers in the 1990s.

In the US, single parent captives (formed by one company) or group captives (formed by several companies in the same industrial sector) and other alternative risk financing vehicles (such as pools formed by hospitals to insure medical malpractice risks) write more than 30 per cent of insurance premiums.

That market share could increase by 50 per cent by the end of the decade.

Tax breaks originally spurred US corporations to form captives in significant numbers in the 1950s.

Companies could deduct their premiums paid to their own captive insurer against their tax liabilities as well as benefit from a number of attractive tax environments provided by offshore centres

CAPTIVE DOMICILES OFFSHORE	
Location	CICR estimate
Bermuda	1,275
Cayman	325
Barbados	175
Bahamas	35
Guernsey	180
Luxembourg	110
Isle of Man	80
Singapore	45
Vermont	151
Colorado	25
Other US domiciles*	45
Other US states*	150
All other non-US	179
US public entity pools	225
TOTAL	3,000

*Tennessee, Hawaii, US Virgin Islands, Illinois, Delaware and Georgia
*10 States with no captive legislation

Source: Tillinghast Captive Insurance Company Reports, January 1989

such as Bermuda and the Cayman Islands.

Although many of these advantages have been eroded by the US tax authorities, companies have continued to form captives for a variety of reasons.

During the last upturn in the US market, insurance became either unavailable or so expensive for some of liability risks that buyers were left with no option but to self-insure.

The notable success of some captives, especially the chemical industry ACE and XL cap-

tives, strengthened their appeal.

Management consultants, insurance brokers and risk managers who make their living by advising businesses on how to self-insure suggest that captives allows insurance to smooth out the cyclical ups and downs in premium rates which characterises the insurance market.

"Many companies view captives as a way to prepare for changed market conditions," says Mr Brady Young, a consultant with the Tillinghast company which advises companies on ways in which they can finance risks inside and outside the insurance market.

"When things are very tough, some companies pull their captives off the shelf and insure more risk through them by funding higher retentions. When the market becomes more competitive, they go back to the direct market."

Because companies insure more risks themselves when they opt to form a captive, it can encourage them to make more efforts to control everyday losses by devoting more resources to safety and training.

In many US companies, risk managers have corporate responsibility for insurance buying and the operation of a captive as well as supervising management programmes to encourage safety consciousness or introduce working methods to limit minor losses.

London-based international insurance brokers such as Sedgwick started the self-insurance hall rolling in Europe when they began to market many US self-insurance practices and techniques in the late 1970s.

Since the early 1980s Britain's own offshore centres, the Isle of Man and Guernsey, have offered an attractive tax regime to UK companies wanting to form captives.

"Overall there is a more sophisticated market in the UK. People are more tuned in and more competitive," says Mr Young, whose company Tillinghast recently produced figures indicating that more than half of Europe's 600 or so captives are from Britain.

Insurance buyers elsewhere in Europe are catching on. The prospect of an end to the current soft market, increasing corporate interest in financial engineering techniques and high interest rates are all partially responsible.

Many European companies are now becoming bigger, partially as a result of the drive towards the single European market, and, as a result, are becoming more sophisticated in their insurance buying.

Mr Tony Benson, risk manager of Guinness, the UK based brewing group, told a recent conference that the UK composite insurers were simply not big enough to meet his company's global insurance needs. Mr Benson estimated that he could probably buy only about £400m in global product liability indemnity from the UK composite companies, a cover that would not be big enough to protect his company from catastrophe.

Many smaller and medium-sized European companies are also showing interest in self-insurance.

Tax advantages, long since eroded in the US, are still largely intact. Mr Richard Latham, formerly an executive with European Risk Management, set up his company, Richmond Insurance Services, specifically to advise smaller European companies.

According to Mr Latham, whose company operates across Europe, "the captive idea has suddenly become acceptable to French and German companies. It is beginning to generate interest in Spain and Italy."

Captives are becoming particularly popular in Europe as a means of insuring risks that the market is fighting shy of.

Insurers are unenthusiastic about covering pollution liabilities, especially in the context of a move towards a European-wide strict liability regime for pollution risks, and product liabilities, especially where companies have substantial US exposures.

Mr Latham says captives are also a good way of insuring credit risks. He says that, with the direct market, "they are very much cheaper if you are part of a captive and can buy excess of loss cover on

Many European companies are showing interest in self-insurance

the reinsurance market." In the UK, the lack of professional indemnity cover prompted a number of professional organisations bringing together architects, accountants, solicitors and, ironically, insurance brokers to form group captives.

The opening in Dublin of the first offshore centre actually within the EEC has also given a fillip to the movement in Europe.

Unlike the Isle of Man and Guernsey, Dublin has full EEC status, allowing captives based there to operate on a European-wide basis.

Fifteen have been established in Dublin so far, says an official at the centre, which hopes to establish a further 15 this year and aims eventually, perhaps optimistically, to host as many as 500 captives.

"We have been told that we have the right combination of EC legislation and the tax structure," says the official, adding that Dublin is aiming to attract the European captive subsidiaries of Japanese and US companies as well as European multinationals.

For reinsurers the development of captives can present problems since it could undermine the position of the traditional partners in the direct insurance field.

This could be a particularly acute difficulty for those reinsurers who have traditionally enjoyed very close links with direct writers.

Many reinsurers, however, accept that the best way to win corporate business is to follow the trend and advise their corporate clients on how to form captives.

Companies like Skandia in Europe and General Re in the US have already gone down this road, while Swiss Re, one of the world's biggest reinsurers, has diversified into the area by taking over one of the pioneers of the risk management industry, the Reiss Organisation.

Munich Re, the world's biggest reinsurer, has been more reluctant to enter the captive management and services field.

However, this attitude may be changing. One of Munich Re's leading executives recently claimed that "insurers and reinsurers might need to widen the scope of the services they could sell for a fee."



Sue Ingham, Vice President, and Alan Blake, Vice President, talking with Roman Kadron (centre), Vice President and Head of Citibank's Transaction Processing Division.

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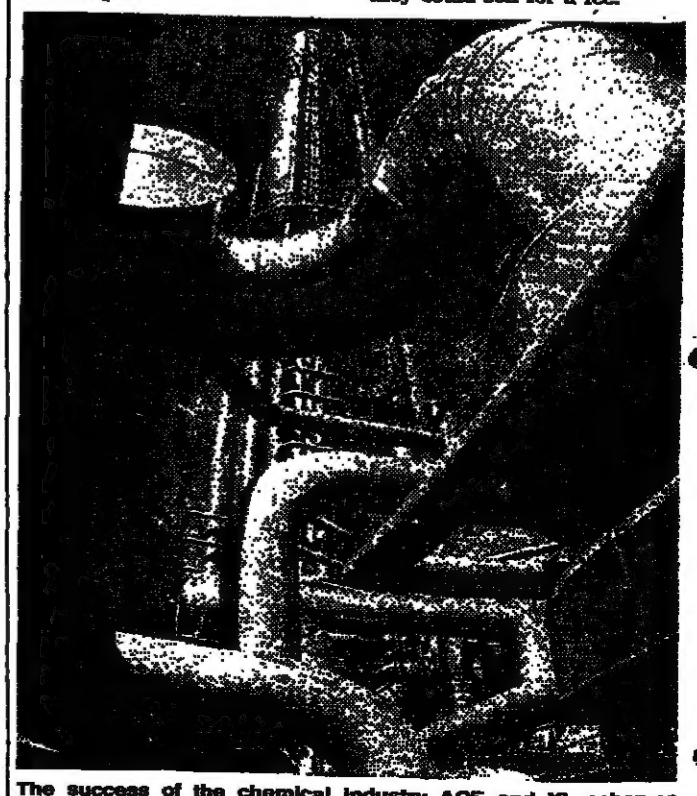
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The success of the chemical industry ACE and XL schemes helped strengthen the appeal of captives.